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A JOINT PUBLICATION OF THE SOUTHERN ECONOMIC ASSOCIATION AND THE UNIVERSITY OF NORTH CAROLINA

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TRANSITION TO DEMOCRACY—TRANSITION TO WEALTH*

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What I want to do tonight is to review with you very simply and in relatively non-economic language some of the problems which have been troubling me for a long time. In my two books, *Democracy and Progress* and *Capitalism,* I have discussed the problems of growth and of democracy in societies which were *already* matured industrialisms and *already* possessed of a strong and mature democratic tradition.[1] It seems to me that today a far more serious set of problems is being raised in the case of those countries which are trying to make the leap from feudalism to democracy and from poverty to high industrialism in a single generation, and it is these problems which I want to sketch in here. My speech will fall into two sections. First, I will discuss the problem in general terms and, secondly, I will try to make some application of the general ideas to southern conditions; for, relative to the United States anyhow, the South is a backward area and it has many of the same problems in kind though not, fortunately, in degree possessed by other backward areas of the world. I was not surprised, therefore, to hear Dr. Ratchford remark that he found his studies of southern conditions very helpful in dealing with modern Turkey. In the same way I hope we will find a general discussion of backward areas of help in analyzing the problems of the South.

I

The Problem of Growth

Consideration of the problems of the transition is especially valuable because it forces us to examine a number of subtle but very important forces which are normally overlooked. Most people, for example, are apt to think that capitalism is merely a matter of private property and that democracy is merely a matter of holding elections. Such views are extraordinarily naive. Our capitalist and industrial civilization is on the contrary the product of a complex of social forces and attitudes which cannot easily be summarized either in terms of economic or political machinery. We are obliged, therefore, to look much further afield.

In order to simplify our discussion, let us begin by running over very briefly the essentials of the problem of economic growth. To do this it is necessary to

* Presidential address delivered at the Twentieth Annual Meeting of the Southern Economic Association, New Orleans, La., Nov. 12, 1950.

[1] David McCord Wright, *Democracy and Progress* (New York: Macmillan, 1948); *Capitalism* (New York: McGraw-Hill, 1951).

make a clear distinction between what might be called a "once-over" change and a "continuing" change.[2] Of course one can, if one wishes, draw up a complete blueprint of a given society and then proceed to put it into effect without making any provision for further development once the new level is attained.

But, as I have shown in my *Economics of Disturbance*, even a plan of this sort is likely to run into difficulties unless there is somewhere in the world an economy geared to continuing growth—upon whose resources the developing country can draw.[3] Furthermore, it is my contention that mere planning for a *single* change or single ideal state is not adequate. In the first place, the conventional standard of living seems to rise about as fast as output. And in the second place, in the more primitive and backward areas, population increase is likely to outstrip any single temporary rise in living standards. Finally, I will contend that the attempt to freeze society at a single level of social and economic organization is incompatible with democratic freedom.

The essential dilemma posed by growth lies in the fact that growth both comes through change and necessarily implies change. As output rises, wants continuously shift. The pattern of consumer demand necessarily alters itself and would alter even if there were no advertising whatever. In the same way it is obvious that in order to make a transition from a feudal, peasant economy to a high industrialism, it will be necessary to shift work methods and to re-train men and re-allocate resources. This is a technological necessity and one in no way related to capitalism.

But what is more important and what constitutes the real dilemma of a growing society is that this process of re-allocation and re-organization can never stop. The law of diminishing returns and the law of variable proportions are not inventions of capitalism. Merely continuing a crude multiplication of existing methods will not ensure continued growth. Sooner or later diminishing returns will set in. Therefore, in order to have continued growth, we must have constant new invention, constant re-allocation, and so on. But the trouble with this conclusion is that it means that there will always be a pressure group problem.

The re-allocation and re-organization of resources necessarily involves some psychological insecurity; for even if everyone has the same money income, the level of psychic well-being may nevertheless fluctuate. As we re-allocate men's functions, we also readjust their relative power and prominence, and the places in which they are required to live and so on. The result is that security in routine cannot be granted, though one may concede the hypothetical possibility of a complete lack of insecurity in *money* income. Furthermore, those who want security in routine will always be tempted to combine to resist change.

In the light of the dilemma just posed I am summarizing in my book on *Capitalism* the requirements of economic growth as follows: (1) Labor; (2) natural resources; (3) knowledge and education; (4) savings; (5) enterprise; (6) ideology; (7) relative stabilization; (8) criticism.[4] Roughly speaking, the

[2] Roy Harrod, *Toward A Dynamic Economics* (London: Macmillan, 1948).

[3] David McCord Wright, *The Economics of Disturbance* (New York: Macmillan, 1947), p. 77 et seq.

analysis runs as follows: Labor and natural resources are not sufficient without capital. In order to have capital, one must have not merely knowledge but also saving (or "not-consuming"). Yet even with knowledge, and a willingness to forego present consumption, there is still need for leadership techniques to bring together the various possibilities and put them into action. Thus we need enterprise. But enterprise will not be permitted in a society which does not have a favorable ideology. Should the current ideology value secure routine more than growth or change, the enterpriser will be kept helpless. On the other hand, the enterpriser cannot function under total anarchy. The problem of social growth, therefore, depends on a balance between change and routine. In the same way unless there is some relative stabilization (complete stabilization being admittedly impossible) the gains of growth may be wiped out in unnecessary depressions and thus, here too, a balance is acquired. Finally, mere growth as such can be an increase in the quantity of "illth" rather than wealth—and without value standards a society which increases output may nevertheless be socially retrograding.

There is no need to explain this classification in detail here. The important point for our purposes is to explain its relevance to the problem of the backward nations. The trouble is that the backward nations are apt to be the dupes of crude labor theories as to the source of value and wealth. Labor and machinery seem to be quite sufficient for wealth creation. The need for saving, enterprise, ideology, is generally overlooked. The importance of *thought*, of managerial and entrepreneurial ability (in Schumpeter's sense), of the know-how and of the ideologies which permit the know-how to operate—all this is generally overlooked, and somehow it is conceived that mere crude work plus mere machinery will suffice. It is the failure to understand the intellectual, "nonproletarian," if one may use such a word, requirements for wealth which is one of the main obstacles to the growth of the world today.

II

Democracy

Just as capitalism and growth are not the mere outcome of private property, so also democracy is not merely a matter of holding elections. On the contrary, in order to have a functioning democratic government, there must be a number of attributes of the cultural side which are frequently overlooked.

First of these is the feeling of responsibility *for* rather than *to* the state. It is just at this point that German ideology has tended to be most unsatisfactory. Ever since the time of Luther, there has tended to be a feeling on the part of the Germans that as long as they took the orders of the qualified authority, they were not themselves personally responsible for what was being done. God would punish the prince or the dictator but not the man whom the prince had ordered to do the job. We in this country, on the other hand, and in Scotland and England, have had the feeling that *we* were responsible for what we did and that we

[4] David McCord Wright, *Capitalism*, Chap. II.

were responsible to see that our government was reasonably fair and honest. We do not think we can shrug off responsibility merely by saying that we have received orders.

Another attribute of cultural democracy is a feeling of tolerance for the other fellow's opinion. The Russian version of democracy is that in a democracy everybody has a single set of "correct" opinions. Whoever disagrees is *ipso facto* sinful. Our system, on the contrary, has "built-in" to it the notion of tolerance and variety. It was explicitly stated both by Jefferson and by Madison that disagreement would naturally occur and that the best that could be done was to work out machinery through which compromises could be reached. Furthermore, in the Bill of Rights we established certain limits beyond which even the power of the majority cannot go.

The third main cultural requirement of democracy is a certain feeling of independence and self-respect and an economic organization implementing it. Theoretically, we should all be willing to vote regardless of the effects upon our bread and butter. But I have argued in my books that when a man is so boxed-in economically that he must vote in a certain way or else starve, the chances of getting an effective democracy are not very good.

So far I have listed the cultural attitudes necessary for political democracy. Now I will run over some of the economic ideas which are frequently given in connection with what is called "economic democracy." I submit that there are five standards of economic democracy, all of which are accepted both by right and left, though in varying degrees, and that these five standards are never wholly in harmony.[5] The trouble with democracy is that it is not a single quality or standard, but a *balance* of qualities and standards and that not one of these qualities and standards is wholly in harmony with any of the others.

Listing then the five standards of economic democracy, I submit they are as follows: (1) democracy of control. This is often appealed to by the radicals who argue that since a man is free, "because" he has a vote in his government, he is not free as a worker unless he has a vote in the management of his factory. (2) A second standard is democracy of status—the one-man-one-dollar idea—and this also is frequently appealed to by the left in its cry for literal equality of income. (3) A third standard I call democracy of welfare. This is appealed to by both sides. It means that most democratic cultures have prized rising living standards for the masses. In this connection the conservative will point to the productive record of capitalism, while the radical will insist that planning could do even better. (4) A fourth standard, democracy of choice, is of course the one most stressed by the defenders of capitalism. It means that in a democratic nation we want as far as possible to give people what they are able to buy when they want it and to permit them not only to buy such goods as they have money to pay for, but also to go into such lines of work as they can manage to do. The socialist claims to be able to implement this value better than the capitalist. The capitalist, however, points to the numerous instances in which socialist governments have felt themselves compelled to direct the occupational choices

[5] David McCord Wright, *Capitalism*, Chap. IV.

of the workers rather than to consult the individuals involved. (5) Finally, in the fifth standard, we have something much overlooked in modern literature. This standard is democracy of aspiration. It means that a democratic society ought to give a man an opportunity to realize to the full the capacities which are in him, to give him a chance to go as far as he can fairly do. Modern radicalism puts altogether too much emphasis on how to make the rich poor and says practically nothing about giving an opportunity for the poor to become rich. There is a form of tyranny known as the equal treatment of unequals. The man who wants to be a physicist should not merely be able to get a chance at education in the existing body of physics but also should have an opportunity to make new discoveries and introduce new inventions. Yet just here the conflict with the routine-minded is at its greatest.

I hope I have said enough to give you the idea that democracy is not a single standard but many standards. But the citizens of backward countries are apt to fall for the one-man-one-vote-one-dollar notion of democracy. They are jealous of inequality, especially foreign inequality. They do not realize the need for the trained manager or enterpriser or for the authority of the trained manager or enterpriser. They are unwilling to recognize the need for allowing some reward to capital in order to induce investment. This spirit of insistence upon literal equality, and this unwillingness to concede a legitimate reward to the investor, constitutes the principal barrier today to the implementation alike of democracy and of scientific technology throughout the world.

III

Before going further it is a good idea to relate briefly the requirements of social growth and the requirements of successful democracy. I suggest that they are to a very large extent the same. Perhaps the most outstanding economic feature is that the decentralization which helps to make possible technological independence also prevents an over-concentration of economic power and thus helps to keep the state from attaining an undemocratic degree of concentration. Without competition among multiple units, in an atmosphere of give and take, there can be neither technical change nor democratic freedom.

But the primitive citizen of backward nations is apt to confuse the single once-over change with the continuing change. Because a dictator, armed with a blueprint, may be able to put through a single massive change in social output, he is apt to assume that that is the way to get social growth. Because such a dictator or dictatorship—for example, the "dictatorship of the proletariat"—might conceivably be fair for a while, he is apt to assume that the good dictator is the best way to organize society. But the American democratic tradition is, that however good a single dictator may be for a while, he or his successors are apt in the long run to run downhill.

IV

It is time now to apply our analysis to southern conditions. There are two ideas about the South widely held by non-southerners both of which are wrong.

The first is that the southerner knows nothing about what it is to be the victim of race prejudice, and the second is that the South is inherently conservative. Neither of these is correct. I could say a good deal about the assumption so often encountered that anything southern must be second-rate; or about the obliteration from our national memory of a great part of the southern contribution toward our intellectual and social life.[6] But these are old scores and I see no reason to dwell upon them. It is too easy for us to be bitter. That is the pit into which so many of us fall.

But concerning the more important question of whether or not the South is conservative, I have always maintained that, barring the race question, the southern social and political tradition is far more democratic than the Hamiltonian one. The southern outlook is essentially liberal and we would like to be friends with the northern "liberals," but there are many things which keep us apart, some creditable and some discreditable.

The first creditable barrier separating us from the northern and western "liberal" is our superior understanding, stemming from Thomas Jefferson, of the nature of democracy. The Jeffersonian tradition has never been willing to have anything to do with that ideal of government *downward* by the nice people so highly praised by Alexander Hamilton. But on the other hand, the Jeffersonian tradition has never been equalitarian. Emphasis instead has been on a fluid, a classless society, and on an equality, not of literal status, but of opportunity—the right to make money and the right to lose money. That vast solid complacency which distinguishes a great deal of northern conservative thought and which assumes as self-evident that what is good for the radiator business is always good for the country, is lacking in southern political tradition. So also, I am glad to say, is the new version that what is good for the radiator workers' union is always good for the country. We have been too often ourselves the victim of the *status quo* to suppose that it necessarily has any sacred significance.

The weakness of the northern liberal, however, is to suppose that we obtain democracy merely by throwing out one oligarchy and substituting another; that, for example, if one group of poor boys become rich and powerful, that is all that is necessary. The Jeffersonian tradition is much more sophisticated. It is concerned with the *constant* infiltration from below of new blood. It is not enough for democracy if a single group obtains power, however humble that group may be. What Jefferson was concerned with was a group that was always sufficiently loose to allow of *renewed* infiltration from below. He held that any group which remained in power indefinitely, no matter how proletarian its origin might have been, would turn into a tyranny and his whole idea was to create a society sufficiently decentralized and sufficiently fluid to allow a constant turnover and constant opportunity. Thus to the Jeffersonian, Mr. Arthur M. Schlesinger, Jr., no less than the old guard, is a reactionary, for whoever believes

[6] Prior to the appearance of Dr. Joseph Dorfman's *Economic Mind* series, there was very little recognition of southern achievements in economic theory. Even in the last edition of Haney's *Economic Thought* we are told that Bastiat's *Sophisms* was translated in the U. S. in 1878! Actually, at least two translations had appeared in South Carolina by 1848.

in the taking over of a self-selecting, self-perpetuating directing group is, by Jeffersonian standards, not democratic.[7]

I have developed these ideas in detail in my last two books and we shall therefore go on to the second creditable reason why the South finds it difficult to get along with the northern and western liberals. This reason is that the South is a growing part of the American scene and that we are still far below the rest of the country in living standards.

Whether the concepts of "saturation," of "plenty," and of "maturity" have any meaning for the rest of the United States may certainly be doubted. But there is one thing that everybody ought to agree on and that is that it has no meaning for the South. I myself, of course, have never felt that there was any single living standard at which mankind would remain permanently satisfied; but so far as the South is concerned, we need not discuss this ultimate question. We are so much below the rest of the country that our poverty is unquestionably intensely felt. Thus we need to grow, and that means that we need to consider a great many things which the North and West can perhaps afford to leave to one side.

When speaking of our needs I refer you back to my list of requirements of social growth. First of all, we need more capital. I confess to being one of those terrible people called "marginalists." Not that I believe there is any indubitably fixed natural eternal level of *real* wages; but I do believe that, despite many indeterminacies, the standard of living ultimately depends upon the ratio of capital to labor. The problem does not seem to me a matter merely of the intrinsic productivity of the individual worker, as I have sometimes heard argued. I am quite prepared to agree that quite probably southern labor, once trained, is just as productive as northern labor and that it can be trained fairly quickly. But the point is that there are simply not enough factories in the South able to absorb at a northern wage level the people available. Let me give an example of what I mean. If the demand for teachers drops off, the fact that a new generation of excellently trained teachers is appearing will not by itself suffice to create a high wage level for teachers. There will have to be more colleges if the standard of living is to be maintained. Of course, if there is a strong union those teachers who *still hold* their jobs might have high living standards, but that will only mean that a great many others will lose the opportunity to participate at all.

Speaking of teachers calls attention to our first and possibly our greatest need—at any rate our most ultimate need—the need for education and particularly the need for training in the management of southern business, so that the southern business man can hold his own against competition from the North. Our methods are archaic, our instruction inadequate, our conception of the work needed almost childishly oversimplified. We talk a lot about the Yankees coming in to take over our section but did it ever occur to us that if our own business men were good enough, they would be able to hold their own much better than has actually been the case. Thus the South needs education.

[7] Cf. A. M. Schlesinger, Jr., *The Vital Center* (Boston: Houghton-Mifflin, 1948). In other words, a world in which the only chance for advancement is by passing Civil Service examinations would scarcely show the requisite flexibility.

But education has to be paid for and in order to have wealth, one must be able to produce it. Taxable capacity is always a limit to our educational facilities, and both for taxable capacity and for production we desperately need capital. We need more plants, more machinery, more factories. Now the important point here is that the incentives which suffice to keep a business going in a rut are not sufficient to start a new business. Some Harvard economists, familiar only with routine-minded industry, may feel that the rate of profit made in southern industries is sometimes excessive. They do not seem to realize that the risks in volved in building *up* a country, and in building *up* a market, are far greater than those involved in merely standing still. So we have to insist upon certain aspects of distribution, certain dynamic aspects, which the northern liberal would like to forget.

And in so doing we run counter to yet another thing—the anti-Democrat tendencies which inhere in the income tax. As I have argued many times, the income tax is a tax more on people who are *getting* rich than people who are *already* rich. It is a burden on the new corporation rather than on the old corporation. And, in other words, it is more of a burden on the South than it is the North. However paradoxical this may be to say so, what I mean is that southern industry is under a greater need to plow back earnings than mature northern industry, and that insofar as the corporate income tax discriminates against small business, it also tends to discriminate against the South.[8]

The South, therefore, as a growing and poor part of the world, does well to be suspicious of the authoritarian-minded modern liberal. The southerner is rightly distrustful of the trade unionist who calls himself his friend but who is in fact more interested in protecting the position of northern labor groups than ever he is in building up the South. The southerner is obliged by the nature of his circumstances to consider certain dynamic aspects of the redistribution program which the northern liberal can put to one side.

But now we come to the discreditable reasons why the southerner cannot get along too well with the northern and western liberal, and the first of these is of course the race question. There is an old legal maxim that "He who comes into equity, must come with clean hands." And we have got to admit, if we are honest, that our hands are not clean. Is it not true that, remembering the size of the community, southern white per capita income is much the same as northern white per capita income? Remember I mean per capita income in towns of the same size. Of course, there are relatively more small towns in the South, and that means that southern income is lower in the aggregate; but I simply mean that for a town of 10,000 in the North and a town of 10,000 in the South, the whites will be found to have substantially the same per capita income.

[8] It may be argued that we get a reverse flow of off-setting "free" services. I should doubt that we receive anything much more than we put in. If we receive "more," it will probably leave only our per-capita share of a general inflation. And in any case we lose greatly in the chance to develop *independent* new industry.

The Negroes, however, will be far below it. I do not believe that we can ever make a rich and prosperous South if we insist upon keeping the Negroes in eternal subjection.

How can we talk about equality of opportunity when "separate but equal" is so often an obvious fraud. No one can accuse me of being a revolutionary, but I cannot help feeling that the ultimate goal in the South must be the removal of segregation. It cannot be done overnight. But it should be an ultimate goal.

Conclusion

I must stop now and give a final summary of what I have to say regarding southern economic and social policy. In this connection Professor Abram Bergson of Columbia has written in his article on socialist economics:

"My impression based on the Soviet experience is that a most favorable moment for the socialist revolution is at an early stage of capitalist development when the middle class is still weak and the proletariat has not yet tasted the fruits of capitalism."[9]

Applying his words to the South, I think that southerners should beware of being in too big a hurry. They should beware of falling for the slogan that "the rich are getting richer and the poor are getting poorer." Just at first in the process of expansion things may well look as if that is the case, but the historical record is too long and too well established for us to doubt that the balance will soon be redressed. We must also beware of the paid agitator from the North who whips up our sectional prejudice by talking about southern labor being exploited by Yankee capital. And, as I have already said, we must beware of the definitions of exploitation which many people are likely to use.

Again there is a determined effort on the part of many people, including many so-called liberals from the South, to persuade us to take charity rather than opportunity, to keep us quiet by government hand-outs while centralized programs are pushed through—government programs which often have the effect of depriving us of an opportunity ever to carry through a genuine independent industrial development of the southern economic system. The state, as I have said earlier, armed with a blueprint, may in the first instance give the appearance of great economic growth, but over the long pull it cannot compete with the competitive and decentralized private capitalist development which we could have. Yet in our poverty anything looks pretty good, and we must try to think just a little further than the end of our nose.

Finally, speaking especially to the young southerner, I want to say that the thing which you most need to do is to keep your head and your temper, especially when you are being attacked. You must realize that the South is constantly being lied about in detail, that everything we do is apt to be misrepresented, and that we get very little credit for what we do that is good. We are a sort of moral whipping boy for the rest of the United States.

But all that is beside the point. Never mind the things that are said about us

[9] Abram Bergson, "Socialist Economics," in *A Survey of Contemporary Economics*, H. S. Ellis, ed., (Philadelphia: Blakiston, 1948).

that are not true. Remember the things that are said about us that *are* true. Don't try to blame our poverty on Yankee discriminations against us, even though some such discriminations may exist. Don't let your anger at the untrue propaganda of the northern left-wing blind you to the fact that there are many fundamental features of southern life which are essentially unjust. We are too alibi conscious. We are too touchy. Let us try to keep our sense of proportion and get on with the work in hand. The rest of the world can then say about us what it chooses.

THE EFFECT OF DOMESTIC POLICY ON THE SOUTHERN AGRICULTURAL PROBLEM[1]

JOHN L. FULMER

University of Virginia

Domestic policy in relation to agriculture is not a recent phenomenon. Even during the era of free land farmers were interested in legislation which affected its settlement and also in peace treaties and other measures by which the land area was increased. According to Edwards:[2] "The struggle to shape national policy with a view to protecting and furthering agricultural interests began with the formation of our Federal system. In the vote on Constitutional ratification, the more distinctly rural sections, representing the debtor class, opposed prohibition of State power to issue paper money, and questioned the 'sanctification' of contracts. Once launched, the Federal Government, in response to threats of secession from Southwestern farmers, was almost immediately obliged to negotiate with Spain for the use of the lower Mississippi River and for deposit rights at New Orleans. In domestic policy, the agrarians broke with the Federalist Party on Hamilton's measures, which were designed, as it seemed, to subordinate the interests of a population 95 per cent agricultural to the paramount control of an oligarchy of traders, bankers, and speculators. Under the lead of Southern planters, notably Jefferson and Madison, the agrarians formed the Democratic-Republican, later known as the Democratic, Party and gained political control in the Presidential election of 1800." Thus began a theme of national policy for the aid, or benefit, or relief of agriculture which has grown in breadth and complexity to the present. Always the basis has been some real, or imagined, difficulty of the industry which loud and vocal groups, often a small minority but which spoke as the leaders of the mass of farmers, used to bring political pressure on the Congress for action.

Over the years since the founding of the nation agricultural policy has grown from a thin thread of agricultural information into a thick, twisted rope of close production controls, price supports, and manifold measures to expand demands; and the end is not in sight of this growth in breadth and complexity. But fortunately more attention than ever before is being given to the dependence of agriculture on a high level of economic activity and full employment, in which the problems peculiar to agriculture are being solved, it is hoped, along with the problems of the entire economy, the whole of which agriculture is a part.

In examining the effects of domestic policy[3] on the South's agricultural prob-

[1] Paper delivered at the Twentieth Annual Meeting of the Southern Economic Association, New Orleans, La., Nov. 11, 1950.

[2] Everett E. Edwards, "American Agriculture—the First 300 Years," *1940 Yearbook of Agriculture*, pp. 256–57.

[3] Domestic policy might be considered to include all forms of legislation which have had an impact on southern agriculture, both directly and indirectly. Obviously, our program committee did not wish that, nor would it be possible to given even the briefest sort of coverage in the short space allowed.

lem,[4] we are faced with an overwhelming, and impossible task, because of the broad scope of this topic. It therefore becomes necessary to delimit it to manageable proportions in the interest of analytical completeness. Consequently, the scope of the analysis will be confined to recent policy, say from 1933 to date, with primary emphasis on the AAA programs relative to cotton. This does not mean that the earlier programs were unimportant—far from it. Perhaps the legislation which established the agricultural colleges, experiment stations, extension services, and vocational agriculture in secondary schools have been more far-reaching; at least, their benefits continue to accumulate. However, since these services were not sufficient to hush the hue and cry for agricultural relief, the demands brought into being the more far-reaching and controversial AAA legislation. Although other services,[5] such as the Farm Credit Administration, have been created by legislation since 1933, and important AAA programs exist for peanuts, rice, sugar, and tobacco, the breadth and complexity of the AAA program in relation to cotton affords a better cross section of how strictly policy legislation of this sort has affected an important segment of southern agriculture.

In the Agricultural Adjustment Act of 1933 it was declared to be the policy of Congress "... to establish and maintain such balance between the production and consumption of agricultural commodities, and such marketing conditions therefore, as will reestablish prices to farmers at such a level ..." as to restore parity prices in terms of the August 1909–July 1914 base. Among several other policies regarding soil conservation the price-parity objective was retained in the AAA of 1938 but in addition the much more ambitious goal of parity income was added.[6] That neither of these objectives was achieved in the prewar days of the agricultural crisis is generally admitted by most economists; that they could never have been gained by the methods employed in the above and related acts during the period or for any other reasonable period thereafter, barring World War II, seems obvious on economic grounds, although the indirect and incidental effects appear to have been responsible in considerable part for major changes in the general character of southern agriculture.

1. *Direct Effects*

Three major methods have been employed to establish a better balance between production and consumption as a means of raising prices, and income, to

[4] The term "agricultural problem" by common usage is self-explanatory. In this paper it will be taken to represent that complex of factors and characteristics of agriculture which cause its per capita farm income to be greatly lower than the per capita income of the rest of the economy. Some of the causes of low per capita farm incomes in the South are small farms, high tenancy, inefficient production, soil erosion, population pressure, unbalanced production, and low prices.

[5] The Farm Credit Administration provides efficient and sound credit. There are other similar services, as REA, whose benefits are well-known. Limitations on space, however, prohibit a recounting of the statistical growth and accomplishments of them.

[6] Elmer A. Lewis, *Farm Relief and Agricultural Adjustment Acts*, Document Room, House of Representatives, Washington, D. C., 1950, pp. 20 and 162.

farmers. They are production adjustments, price maintenance by non-recourse loans, and certain practices to enlarge demand.

While production adjustments of cotton in the United States were more successful than for other basic crops,[7] expansion of cotton production in foreign countries largely nullified the efforts of local producers. The chief difficulty with this approach was the absence of the necessary economic leverage. For example, in the ten-year period 1933–42, average United States production represented only 26 per cent of the average world supply because carry-over of American cotton constituted another 23.5 per cent. Consequently, domestically we undertook the difficult task of influencing world price by variations in that small 26 per cent, an impossibility since the other 74 per cent was largely uncontrollable, and 50 per cent was extraneous to American supply. Changes in this latter and larger percentage from 43 in 1933 to 52 in 1942 more than nullified the changes in the whole which were attempted by manipulations in the fraction (roughly one-fourth) represented by production in the United States. In this connection a conclusion on the futility of such manipulations by Howell, an economist in the U. S. Department of Agriculture, who studied the problem exhaustively in the 30's seems particularly pertinent: ". . . in the absence of monopoly control of the world supplies of cotton, restrictions on production in the United States and price maintenance for American cotton, without similar restrictions and controls for other cottons, tend to reduce the market outlets for American cotton at the expense of the American cotton industry and to the advantage of cotton producers in other countries and of producers of other fibers that compete with cotton."[8]

In 1933 during the days of the cotton plow-up campaign some mistook the sharp rise in price which occurred between May 1933 and February 1934, as being due to the reduction in the crop; however, the biggest part of this price rise was associated with the Roosevelt monetary policies.[9]

From these arguments one should not imply that the writer is hostile to controlled cotton acreage, rather he tolerates it as necessary to a healthy southern agriculture on grounds other than gaining as a first objective higher prices. A cotton acreage program 20 to 25 million acres below the 1925–30 average has had, and will continue to have, as we shall see subsequently, a most important role in the awakening of the farmers of the South to the potentialities of the region's resources—soil, climate, and human—for other farm enterprises, and for better balanced farming in general. These possibilities had been talked, editorialized,

[7] Geoffrey S. Shepherd, in *Agricultural Price Control*, pp. 62–63, points out that the reduction in cotton production in the United States averaged 17 per cent from 1930–32 to 1938–40, which was much higher than wheat (4 per cent) and corn (zero per cent). However, in certain years the production adjustments were much less than 17 per cent. For instance, in 1937, with 6 million fewer acres the largest crop on record was produced; whereas in 1950 with an 8 million acres reduction the crop is estimated at less than 10 million bales, one of six such crops since 1920. These extremes illustrate how easily the vagaries of the weather upset the most careful calculations.

[8] L. D. Howell, *Cotton-Price Relationship and Outlets for American Cotton*, U. S. Department of Agriculture, Technical Bulletin No. 755, Jan. 1941, p. 36.

[9] G. F. Warren and F. A. Pearson, *Gold and Prices*, pp. 187–192.

and even preached for many decades prior to 1933, but idle cotton acres broke the inertia and showed the practicality, and even necessity, of other alternatives.

The effects of stabilization operations of the Commodity Credit Corporation on cotton farmers are even more questionable than the production adjustments. For one thing the loan rate was often too high, especially in the early years of the program, and artifically restricted movement of supply into consumption channels. Exports were clearly hindered between 1935 and 1939 and an export subsidy had to be resorted to in order to recover part of the foreign market for cotton thus lost. Studies by Shepherd[10] show that storage in an ever-normal granary probably did not increase growers' returns from cotton since no permanent effect on supply or demand was induced. A further effect of the loans, especially during the years when an inflexible, high rate relative to the market equilibrium existed was that the restriction of consumption may have reduced demand in the long run from competitive products gaining a market advantage through permanent shifts in consumer tastes. For example, the shift to rayon may have been speeded up by the artificially maintained cotton prices from loans in the 30's.

Another effect of an inflexibly high loan rate has been production adjustments in response to price by producers which fell short of that indicated by competitive equilibrium. This is illustrated by the 1949 crop. Following the 1948 crop of 14.9 million bales, a 5 to 6 million bale carry-over was predicted. In itself a carry-over of this size offered no complications for it was about normal size. In late September 1948 the U. S. Department of Agriculture ruled that no acreage allotments would be in effect in 1949. It acted on formula according to law but would have been correct on previous price-supply adjustments had the inflexibly high 90 per cent of parity loan rate not been in effect; for since 1910 the following large crops have been followed by small crops: 1914, 1920, 1926, 1931, 1933, 1937, 1942, and 1944. These large decreases in supply had been due to two forces operating together—reduced acreage and lower yields. The acreage decreases occurred as a result of farmers responding to price-cost stimuli, while yield declines occurred as a result of certain natural phenomena which gave high yields every 5 or 6 years and also at 11 year intervals out-of-phase, a multiple of the shorter periods.[11] These high yields were followed in every case by low yields, which were from 20 to 50 pounds lower than the preceding high. From 1948 to 1949 a reduction in acreage should have occurred and also a reduction in yield. Yield did decline but acreage harvested departed from the 40-year pattern of behavior; it increased because the government loan rate of 90 per cent of parity kept the price of cotton 30 cents or better in the months prior to planting in 1949, so that the necessary price discount for farmers to reduce acreage was absent. In fact, since the price of cotton was kept artificially high as compared to most other products grown in the Cotton Belt, the price parity of cotton to these crops favored an expansion of cotton acreage, which increased 4.3 million acres from 1948 to 1949, and despite the decline in yield of 27 pounds, a near record

[10] *Op. cit.*, pp. 112–13.

[11] John L. Fulmer, "Relationship of the Cycle in Yields of Cotton and Apples to Solar and Sky Radiation," *Quarterly Journal of Economics*, May 1942, pp. 385–405.

crop of 16.1 million bales was harvested. This coupled with a carry-over of 5.4 million bales August 1, 1949, made acreage allotments mandatory in 1950. Because of certain inflexible provisions regarding farm allotments and late-spring 1950 amendments to the law which many farmers were unable to take advantage of, total acreage planted (July 1 estimate) fell 1.5 million acres below that permitted in the national allotment. This short acreage coupled with a second year of low yields (27 pounds below 1949) was estimated October 9, 1950 to produce 9.9 million bales, resulting in a sharp reversal in the supply situation. Although not particularly objectionable to the mass of farmers as cotton has been selling for about 40 cents, the switch from a more unmanageable surplus to a very tight supply situation affects in a mild way national security, induced in great part, it is true, by the unexpected Korean War and a worsening in the international situation.

The conclusion is that the loan provisions of AAA legislation have operated often to the disadvantage of the cotton grower. However, if employed in a flexible relationship to total supply and in a reasonable ratio to some recent 5- or 10-year price average, this feature of the program could be of real benefit to farmers in reducing the income effect of weather surpluses. Basing the loan rate on some ratio to parity is objectionable because of its theoretical nature and wide departure, as a standard, from realistic and achievable goals in a time of depression. Even at a low ratio to parity the loan program in the late 30's established such high price levels for cotton in relation to market price that in addition to pricing American cotton out of the export market and otherwise damaging the cotton farmer's position, such a large accumulation of stocks occurred that the political expediency of the program was seriously threatened. World War II bailed out the loan program financially so far as cotton and other basic crops were concerned. However, such events should not be counted on to save this and similar unsound features of the domestic agricultural programs in the future.

In Section 12 of the AAA of 1933, specific authorization was granted to the Secretary of Agriculture to use part of the funds collected from processing taxes and otherwise appropriated "for expansion of markets and removal of surplus agricultural products"; however, under Section 32 of the amendatory legislation of August 24, 1935, this authority was considerably broadened and made more specific by an appropriation of 30 per cent of all custom duties for the purpose of encouraging increased exports and domestic consumption.[12] However, the effects on demand of both of these sections appear to have been small prior to 1939. Cotton could have benefited very greatly under the export provision of Section 32 because it was losing out in foreign markets, due to the high loan rates relative to the world price of cotton, but the prohibition against export subsidies on unmanufactured cotton prevented effective action. In the Agricultural Adjustment Act of 1938 the demand provisions of previous legislation was reaffirmed and broadened to include development of new products and new markets with four regional laboratories being set up in furtherance of this title of the Act (Title II).

[12] Lewis, *op. cit.*, pp. 27, 58, and 59.

Also, the prohibition against export subsidies on raw cotton was removed.[13] These subsidies proved quite effective during the 1939–40 crop year when exports were 2,866,000 bales larger than during 1938–39 and 332,000 bales larger than the five year average for 1933–37.

The government also used various schemes to expand domestic consumption of cotton. These consisted of direct purchases of cotton and cotton fabrics in the open market with distribution to relief and low income families. Both products were also supplied to low income families to make mattresses. Programs were likewise devised by the government to develop new uses for cotton, the most notable being cotton bagging to replace jute, insulation materials, and fine paper. Actually, only a small quantity of cotton was disposed of by these measures. Although such experimental programs with only modest funds relatively being directed to them could not be expected to make a dent in the huge surplus of cotton, such schemes probably would not stand much chance in the long-run of solving the cotton problem. In the case of direct purchases for relief distribution, cotton requires a large amount of processing before it is ready for consumption, which means that to add a dollar to farm income several dollars must be spent on cotton textiles. In manufacturing cotton bagging, insulation and fine paper, cotton lint at any reasonable farm price is too expensive as a raw material.

During the late 30's the stamp plan came into existence. Under this scheme the government attempted to influence the consumption of different groups of consumers through a purchase-subsidy which took advantage of differences in elasticity of demand between income groups. It was experimented with most widely in food purchases. On the basis of experience gained in operating the plan in connection with food, experts in the United States Department of Agriculture estimated that the increase in farm income from higher prices would vary, depending upon the elasticity of demand of nonparticipants; from 60 to over 100 per cent of the tax money invested in the stamps.[14] The plan was also applied to cotton textiles at fewer locations with even less conclusive results. However, because of a relatively higher average elasticity of demand for clothing than for food, and hence of a smaller differential in the elasticity of demand for textiles between different income groups, the scheme could probably not be made as effective for clothing as for food.[15] Therefore, the increase in farm income from a stamp plan on cotton textiles would be proportionately less than on food and the gain could be quite small due to the probable lack of a price stimulus. Since cotton is a storable product, such programs would only be expedient politically when a large surplus of cotton existed. Consequently, such subsidized purchases would only eat into the

[13] *Ibid.*, pp. 168–170.

[14] Norman L. Gold and others, *Economic Analysis of the Food Stamp Plan*, U. S. Department of Agriculture, 1940, p. 6.

[15] Studies of consumers' income and expenditures for 1935–36 showed that while the income-elasticity of demand for both food and clothing was less than unity, clothing purchases showed considerably more response to rising levels of consumers' income than foods. See National Resources Board, *Family Expenditures in the United States: Statistical Tables and Appendixes*, U. S. Government Printing Office, Washington, 1941, p. 37. Several more recent expenditures studies disclose the same conclusions.

surplus without causing much rise in price, thereby confining the cotton farmers' income gains to the share of raw cotton in the consumer's cotton textile dollar.

2. *Indirect Effects*

While the direct measures of AAA legislation proved only partially effective in restoring an equality in purchasing power and income for agriculture, the indirect effects, or rather windfall gains which the farmer gained from the program, have been more important to southern agriculture. First should be considered the effect on business confidence in agriculture of a higher and more stable price. Whether from monetary policies or reduced production, the results of a rise in the price of cotton were most beneficial to the southern agricultural economy. As a result of the reversal in the spiral of decline in the price of cotton, business confidence was restored and the terms of farm credit and refinancing were much improved to the advantage of the farmer.

A second gain, not unexpected, was the release of acreage from cotton production adjustments for other purposes. The largest part of it (15.2 million acres) went for increased feedstuffs. Another 7 million acres at least went to expand open pasture. This additional acreage with higher yields from putting good quality cotton land in grain, hay, and pasture resulted in a more than proportionate increase in forage. A further large increment to feed resulted from the decline in horses and mules of 1.8 million head. All classes of livestock increased. From 1925–29 to 1940–46 all cattle increased 41 per cent, milk cows 35 per cent, hogs 35 per cent, and chickens 19 per cent. Despite the relatively large increase in hogs the enterprise was still 12 per cent below the 1915–19 level. Hogs appear to be losing ground in the southern agricultural economy compared to cattle, which is not unexpected in view of the shifts in feeds which have occurred—decline in corn acreage and increase in grains, hays, and pasture. This shift in livestock enterprises is of great significance to the region's agriculture from the standpoint of soil conservation and soil building, and output and sales of the more profitable livestock products, such as milk, the production of which expanded 80 per cent between 1919 and 1944 with sales increasing by 731 per cent.[16] Here the size of the base from which the percentage is computed should be considered but the growth of cities, rising level of incomes, and increased consumer desire for milk have been the important factors.

A third benefit from the adjustment in cotton acreage may be referred to in a general way as improvements in production efficiency. Several changes caused this. One important factor, a consequence in part of the AAA, was the decline in the number of cotton farms of 39 per cent from 1929 to 1944. The increase in number of tractors and other associated mechanization equipment reduced labor requirements and also helped increase the size of farms. That these changes were undoubtedly of the utmost significance is indicated by the very large increase in number of tractors in the region; from 1940 to 1945, they increased 83 per cent and by another 40 per cent from 1945 to 1948. A third major factor in the increase in production efficiency was the general increase in crop yields in the region.

[16] John L. Fulmer, *Agricultural Progress in the Cotton Belt Since 1920*, p. 197.

These gains are not readily available for all crops but are indicated by the increase in the yield of cotton, which rose 44 per cent from 1925–29 to 1940–46, induced in some considerable part of course by the improvement of land quality which resulted from the large reduction in cotton acreage. All these changes together resulted in more non-cotton farms, smaller acreage of cotton per farm (decrease of 30 per cent) but greater production of cotton per farm (15 per cent increase).[17] The result has been higher efficiency from two standpoints—more economies of scale and lower costs per unit because of higher yields per acre. These trends for the most part first began in a noticeable manner during the early years of the AAA and were greatly accelerated by war conditions.

The conservation program is the fourth indirect effect of domestic policy which will be considered here. The Soil Conservation and Domestic Allotment Act of 1936 which replaced the Agricultural Adjustment Act of 1933 that had been previously invalidated by the Supreme Court decision in the Hoosac Mills case was the first act of its kind which provided effective administrative provisions of general coverage. Through major emphasis on conservation farming, promoted in part by incentive payments, the AAA again sought the same adjustments in production which it had achieved with partial success under the Act of 1933. However, in this second attempt at production control, it was even less successful, as the record crop of cotton in 1937 attests, but in the indirect but more important objective of conservation farming it achieved more worthwhile and permanent results. Undoubtedly, some of the most important long-run benefits to southern agriculture are traceable to the conservation provisions of the Acts of 1936 and 1938. As a result of these acts, the mass of farmers, sharecroppers, tenants, small owners, and other marginal types of farmers were introduced in an effective way, for the first time in the whole history of agricultural legislation for the relief of agriculture, to the benefits of crop rotations, legumes, liming, and superphosphate. That they were favorably impressed by the results is indicated by the extent to which such practices have been continued, and expanded, since 1942 under a program much less restrictive and subsidized than in the 30's. Furthermore, the educational accomplishments of this aspect of the domestic programs relative to southern agriculture have been without parallel in efforts of this sort. With comparatively little cost, a small reduction in production of cotton was achieved while at the same time the simplest rudiments of scientific farming were taking shape in the thinking and habits of these marginal classes of farmers. The result has been that by now there has come into existence a better balanced, more progressive, and more efficient system of farming than the region has ever had before.

The fifth and final indirect benefit which will be discussed (although this by no means exhausts them) was the decrease in tenancy, in particular sharecroppers, which came concurrently with the other changes given and undoubtedly was in part caused by the AAA. The peak in sharecroppers in the Cotton Belt was reached in 1930 and of other tenants in 1935, so that at some time after these

[17] *Loc. cit.*

dates respectively and before subsequent census reports noticeable declines set in. However, the sharpest decreases occurred in sharecroppers both absolutely and relatively. From 1930 to 1945 both white and colored sharecroppers decreased sharply and consistently. The decline in white sharecroppers was 56 per cent, of colored sharecroppers 32 per cent.[18] A more recent study released by the BAE[19] disclosed that the downward trend in tenancy continued through 1947, and conditions in the Cotton Belt suggest that the trend may still not have been reversed. It is well known, of course, that many of the deficiencies in southern agriculture (soil erosion, small farms, exploitative credit and rural slums) are directly attributable to the sharecropper system. Therefore, its loss of importance is a favorable omen for southern agriculture.

3. *Inequities*

It is obvious that no law can be enacted which will operate equally on all classes. Minor inequities are to be expected, but those of major proportions would seem to require correction by legislative enactment. Three of the major inequities which will be noted here are displacement of tenants, inequalities in distribution of benefits, and the differential effects of certain aspects of the programs on farmers of various degrees of commercial production.

Although the Agricultural Adjustment Act of 1938[20] included a special provision which protected tenants and sharecroppers against displacement, the very large decrease in sharecroppers since 1930, discussed above, which was under way strongly in 1940 indicates that the provision had little effect. Even though the decrease in sharecroppers per se represents a step forward for southern agriculture, as we have noted, the human element, that is, the sharecropper, requires consideration. If he must be displaced, and the sharp reduction of the intensive crop, cotton, which he was primarily employed to produce, make such an adjustment both desirable and necessary, provision for their placement elsewhere in agriculture or their retraining and employment in industry or the general economy should constitute an integral and fundamental part of the AAA legislation.

The distribution of benefit payments from the AAA programs is a prime example of double-talk in the application of policy. Although the general objective of agricultural policy since 1933 has been the achievement of income parity for agriculture with the rest of the economy, the distribution of benefit payments has not recognized that economic inequality is a matter of differences in returns to individuals or families as much as, or perhaps more than, disparities between

[18] *Ibid.*, p. 74.

[19] Carl C. Taylor *et. al.*, *Trends in the Tenure Status of Farm Workers in the United States Since 1880*, U. S. Department of Agriculture, Bureau of Agricultural Economics, July 1948, pp. 21–24.

[20] Lewis, *op. cit.*, pp. 166–67. Under this section increases in payments to landlords from reduction in number of tenants below average was prohibited unless the county committee found it justified. An amendment to the Soil Conservation and Domestic Allotment Act of 1936, approved May 14, 1940, prohibited increased payments to landlords from soil conservation practices under essentially the same conditions. *Ibid.*, p. 236.

agriculture and the rest of the economy. In other words, it is a matter of balancing inter-family inequalities in the general economy. Since various studies show a much higher concentration of farm families in the low income groups[21] than of urban or rural non-farm families,[22] the justification of special treatment for agriculture is established on these grounds. However, if low income families justify an income adjustment for agriculture, then these families should be the chief recipients of the funds allocated. Obviously, disparities in income between agriculture and the rest of the economy created by a certain percentage of families at the lower end of the income scale, should not constitute the basis for a general hand-out to all the families in agriculture. Likewise, admitting the welfare objective of larger incomes for families in agriculture with inadequate incomes, it is obvious that some regions, such as the South, would qualify for proportionately more such payments than the Middle West. Yet methods which make distributions of benefit payments on the basis of some such criteria as acres removed, quantity of cotton in the quota, and acres of soil conserving or soil building practices, not only fail to recognize inadequacies in family incomes but also tend to perpetuate the inequalities[23] and may even enlarge them under certain circumstances.

Some measure of the extent to which the human factor has been ignored in the agricultural benefit payments may be gained from results of studies along these lines by Smith and Roberts, summarized in the *Journal of Farm Economics* of August 1941. They found for the four-year period 1936–39 that disbursements of Agricultural Adjustment benefits per capita of farm population ranged from $197 in North Dakota to $5 per capita in Rhode Island, with wheat states, in general, receiving the highest payments, corn-hog states next, and the cotton states except Oklahoma, Texas, and Louisiana[24] the lowest.[25] Considering all forms of government payments[26] to agriculture, they found that the same pattern of inequalities prevailed.[27] Apparently, there has been little tendency to improve the program in this respect for a recent study of agricultural progress in the Cotton Belt[28] points out that "while the Cotton Belt states have a per capita farm in-

[21] Direct comparisons of incomes between farm and non-farm families seldom do justice to the latter because farm privileges (food, fuel and rent), when included, almost never are valued at retail prices.

[22] Pages 288 and 289 of the *Statistical Abstract of the United States, 1949* show the distributions of all three kinds of families (farm, rural, non-farm, and urban) by income level for 1935–36 and 1941.

[23] This has been recognized in a small and inadequate manner by the ceilings which existed in some years on maximum payments to individual producers.

[24] Influenced by the sugar program.

[25] T. Lynn Smith and Ralph A. Roberts, "Sources and Distribution of the Farm Population in Relation to Farm Benefit Payments," *Journal of Farm Economics*, Aug. 1941, pp. 613–16.

[26] These expenditures include agricultural adjustment, soil conservation, land utilization, agricultural experiment and extension service, forest service, and grants to agricultural colleges.

[27] *Ibid.*, p. 616.

[28] Fulmer, *op. cit.*, pp. 151–52.

come considerably lower than the rest of the United States, only three-tenths of it in the Eastern and Delta states and two-thirds in Oklahoma and Texas, government payments per capita were distributed more heavily outside the cotton states, about 20 per cent higher than the ten-state average during 1935–39, and nearly double[29] it during 1941–45 and 1947." Disbursements of agricultural benefits more in proportion to income differentials may not be feasible politically, but the justification for the same on social and economic grounds is not, thereby, lessened.

A third example of how the AAA programs have operated inequitably arises from the way the program has affected different economic classes of farmers. It is well established that a small percentage of the commercial farms account for a relatively high percentage of the marketable quantities of the basic commodities. In 1945, 29 per cent of all farms sold 80 per cent of all produce marketed in the United States. At the other end of the scale a group of inadequate farms (43 per cent) sold less than 5 per cent of the produce;[30] for many purposes these farms can be ignored. In the case of at least two types of benefits—parity payments and price stabilization loans—it will be argued that they operate more than proportionately to the advantage of the commercial farmers.

The resources of the small farmer are concentrated proportionately more in his and his family's labor, while those of the larger farmer are more in capital, land and entrepreneurship. If the small farmer is forced by an adjustment program to reduce the utilization of his chief resource (labor) through reduced cotton acreage, his labor resources will likely go unutilized because of the difficulty of finding part-time employment for several members in a family. On the other hand, if the large commercial farmer has redundant resources, capital and entrepreneurship, they will likely find full utilization elsewhere in the economy because both are highly mobile. The same is not so true of land, but it can be devoted to a less intensive use. This means that the commercial farmer has a cost structure more highly constituted of variable (adjustable costs) than the small farmer whose labor return is not price determining but is price determined. Consequently, the commercial farmer can to a much greater extent adjust costs to a reduction in cotton acreage with little, if any, rise in unit costs, but the small farmer is to a large extent unable to do the same. This means that the commercial farmer can shift a very large share of the cost of adjustment to the factors of production with his direct income being reduced only to the extent of the loss in volume. If he invests the capital and his entrepreneurial ability equally well outside agriculture, the indirect additions to income together with those from the less intensive use of land may largely make up for the loss of income from volume. On the other hand, the cost of adjustment to the small farmer is a part of the return to his and his family's labor. He loses this income and an addi-

[29] A great part of the increase was probably due to the wartime subsidy payments for production of milk, lambs, beef, etc., products of which the South was not set up to make much contribution.

[30] K. L. Bachman and others, "Appraisal of the Economic Classification of Farms," *Journal of Farm Economics*, Nov. 1948, p. 684.

tional amount from loss of volume. From this reasoning it is apparent that parity payments make up relatively more of the loss of income caused by the production adjustment of commercial farmers than of the small farmers.

In the case of stabilization loans, the commercial farmer has a surplus to invest in the ever-normal granary, but the small farmer has such a small income that his savings are too small, or may be even negative, to permit such investments. Consequently, the commercial farmer benefits from stabilization operations directly in proportion to his scale. The small farmer does not gain from it except under exceptional circumstances because he is unable to participate.

Soil conservation and soil building payments however are of differential advantage to the small farmer because such practices afford him a market for unutilized labor in the application of materials and performance of practices. In the case of the large commercial farmer they are not as advantageous because he would generally be subject to additional labor costs.[31] Consequently, the small farmer's gain in income equals the benefit payment less material costs, whereas that of the large commercial farmer equals the benefit payment less material outlays and labor costs.

The inequities of the small farmer in these respects have been in part, although imperfectly, recognized by all programs for cotton since 1935.[32] Section 344(d) of the AAA of 1938 provided that the farm allotment should be the smaller of either five acres or the largest acreage planted (plus the acreage diverted from cotton) in either of the preceding three years.[33] In 1941 these farms constituted 30 per cent of all cotton farms and probably represented 12 per cent of the acreage and 5 per cent of the total production.[34] Five acres obviously is not sufficient to keep a farm family occupied. Ten acres is a better limit[35] which would rep-

[31] In a study of farmer participation in the 1944 Agricultural Conservation Programs in the Southern Region by the Field Service Branch, U. S. D. A., it was found that although the percentage of farmers participating in all programs increased with the size of the farm, the percentage of cropland and pasture of the participating farms covered by liming, winter legumes, and terracing declined with size of farms. (Basic data supplied through courtesy of Mr. T. L. Ayres, Southern Region, Field Service Branch.) This indicates that when small farmers participate they do so more completely than the commercial farmers, evidently because of the reasons advanced. The big problem is to obtain higher participation on the part of the small farmers.

[32] Section 39 (e) of the Act of August 24, 1935, amending the AAA of 1933, made mandatory an allotment of 956 pounds, or the average production for the base period if production was less. See Lewis, *op. cit.*, p. 61.

[33] *Ibid.*, p. 191.

[34] Estimates on acreage and production from the 5 acre or less allotments are not available. However, a rough idea can be gained of the importance of these farms from the 1940 Census groupings of farms according to bales produced. Two bales would be about the top limit of production from such allotments. Incidentally, the proportion of all farms represented by 2 bales or less in 1940 is exactly the same as the 5 acre or less allotments in 1941, which adds validity to the baleage assumption for 1940. See *Cotton:* Hearings before the Subcommittee of the Committee on Agriculture, House of Representatives, Seventy-eighth Congress, Second Session, December 4 to 9, 1944, pp. 63 and 714.

[35] Certain limitations on these as regards soil conservation seem desirable in the interest of national welfare. Other limitations on entry and exit of farmers into cotton production would seem desirable also in order to prevent the burdens of city unemployment being shifted to the large commercial farmers.

resent 62 per cent of all cotton farmers, 33 per cent of the acreage, and 22 per cent of the production.[36] Uncontrolled production on farms producing only 10 acres, or five bales, would free a substantial proportion of the cotton farmers from the shackles of close regulation which would concern only 20–25 per cent of the production.[37] Since the small farmer is in a less favorable position to finance soil conservation and other land building programs, although he stands to profit relatively more from them because of surplus labor, such programs should be especially designed to fit his circumstances. Similarly, all informational and extension programs should be re-examined to fit the small farmers' peculiar needs and capabilities. The commercial farmers would bear all burdens of reductions in production since they control 75–80 per cent and are the primary beneficiaries of the gains from such programs.

An appropriate conclusion for this section is from the well-known political scientist, C. M. Hardin[38] of the University of Chicago, who sums up the position of the commercial farmer in the agricultural programs as follows: "If the family-size farm has been a goal of much of agricultural policy (witness the Homestead Act and, in a sense, minimum allotments and payments and even the historical base of the AAA), it is also true that much public assistance in agriculture is designed and has the effect of giving to 'him that hath.' Thus in the AAA (PMA) program, some twenty per cent of the farmers get sixty per cent of the payments. The Farm Credit Administration operates to provide favorable credit conditions and terms to commercial farmers. Marketing programs obviously favor the commercial farmers, especially those who, constituting a third of all farmers, supply some eighty per cent of the commercial agricultural product. Generally speaking agricultural research and extension have most benefited those farmers already in better financial position than their neighbors."

4. *Future Progress in Southern Agriculture*

The prewar AAA did not accomplish its main objectives. Perhaps they were unattainable through the legislation enacted because of the far-reaching, and often unrealistic, aims of the program and also because of the great complexity of the forces conditioning the results. But having lived on a cotton farm prior to and during the early days of the AAA, I am convinced it accomplished tremendous things for southern agriculture. It restored the morale of millions of farmers in that region whose confidence in themselves and their country had reached an all-time low in the spring of 1933. It taught the illiterate and ignorant sharecroppers and others more of the principles of crop rotation and scientific farming

[36] Based on Census size groups as in footnote 34 but with an upper limit on production of 5 bales.

[37] Analyses of historical changes in acreage of cotton on farms of various sizes in the Upper Piedmont and West Texas for the period 1938 to 1946 show that it was the commercial farmers who made largest response to war prices after acreage controls were removed in 1943. In other words, these results indicate, as expected, that the small farmers have a comparatively inelastic cotton acreage response to changes in costs of production and prices of cotton, while the commercial farmers have a relatively elastic response.

[38] C. M. Hardin, "Reflections on Agricultural Policy Formation in the United States," *American Political Science Review*, Oct. 1948, p. 901.

in less than a decade than all the informational and service agencies had been able to get across to them in several decades. In World War II a record level of production of food and fiber was achieved because the basis for high rates of production had been laid by the soil building which had occurred in the late 30's.

The agricultural legislation now on the statute books is not perfect, but it has been improved by amendments and it will be further improved with time. Some of the recent changes in the basic legislation have been desirable, such as, for instance, the 10-year moving base that is used in computing parity prices. This new procedure will introduce a long needed flexibility in the parity-price relationships. Certain basic crops will receive lower parity prices while most livestock and meats are to receive higher parity prices. This should encourage further livestock development in the South which is badly needed in the interest of better diets, better balanced farming, and improved soil conservation.

There has been some discussion about regaining our export market for cotton. Apparently, those who favor a high volume of exports of raw cotton are overlooking long-standing tendencies in American economic development toward production which utilizes a minimum of labor and a maximum of capital and entrepreneurial ability. With the exception of production in West Texas, the irrigated areas, and to some extent in the Delta, cotton production elsewhere (concerning vast numbers of poverty-stricken farm people) occurs by antiquated methods, so unlike typical American production procedures. To advocate larger export markets is to advocate lower prices for cotton and more of his sort of farming in the South. Such a program might reverse current favorable trends in the Eastern Cotton Belt, in particular, returning it more predominately to an agricultural system which our rising level of education and efficient technology are capable of eliminating from southern agriculture altogether. Perhaps a time will come, and not in the too distant future, when all of the cotton operations can be completely mechanized. In that event, most of the cotton production would shift to the Delta, West Texas, the irrigated areas, and to a few large farms elsewhere. When that time arrives, and it is still many years away, the small cotton farmers will be "out in the cold" if no progress is made in the meantime toward a general adjustment of the region's agriculture. However, with the controls as they exist, together with other changes in the region's economy toward larger urban centers and more industry, the trends toward a more desirable balance in its agriculture are well under way. These trends should continue so that when the degree of mechanization in cotton arrives to make it a super-American crop there will be no serious dislocations.

Synthetic fibers have made serious inroads on cotton consumption and will continue to do so irrespective of the price for cotton. These fibers are a good example of how American technology gives those who enjoy the *status quo* a jolt at intervals. These products have fundamental qualities and characteristics which consumers desire. The innovations in these synthetic fibers are constantly broadening their possibilities in the clothing market. We must accept the situation as a new datum, not moan over the fact, or try to regulate them out of existence. Those who wish a price war with the synthetics should be reminded that

the price of cotton is the least important factor determining the per capita consumption of cotton.

Some years ago the late Henry Schultz[39] of Chicago published an exhaustive study of the factors influencing the consumption of several agricultural products. Over the period from 1875 to 1929 he found that business conditions were by far the most important factor determining per capita consumption of cotton in any year, and he discovered also that as we progressed into the 20th Century, the importance of business conditions increased. In the period 1914–29, his results showed that while the level of business conditions explained 65 per cent of the variations in per capita consumption of cotton in the United States, the changes in the deflated price of cotton explained less than 4 per cent of these yearly variations. By analogous methods the per capita domestic consumption of cotton between 1930 and 1949 was examined in relation to deflated prices, index of industrial production, ratio of price of rayon yarn to price of cotton yarn, and trend. Schultz's finding with respect to business conditions (as measured by the index of industrial production) were confirmed. As a factor in yearly per capita consumption of cotton in the United States, the index of industrial production (adjusted for growth of population) was by far the most important factor, being over three times more important than the deflated price of cotton. Consequently, a price war with the synthetics is not the answer to regaining part of the cotton market lost to them, although a high level of economic activity might be.

A new frontier in southern agriculture of great potentialities is that of increased production efficiency. According to indexes of output per worker calculated by the BAE, the three southern divisions[40] were from 52 to 67 per cent as efficient[41] as the entire United States in 1941–45 on the average, and from 30 to 50 per cent as efficient as the East and West North Central divisions. The disparities in per capita cash farm receipts with the rest of the United States were in about the same ratio as the efficiencies, so that output per worker in southern agriculture goes a long way toward explaining the low economic level of the region's agriculture. Although the southern agricultural regions made large gains in productivity per worker from 1924–29 to 1941–45, they made little relative gain on the United States as a whole, despite increases in size of farms, mechanization gains, loss of farm population, and higher crop yields. Bearing on the problems of increased output per worker in the South in the short run is the small amount of cropland per worker, 15 acres in the South Atlantic and East South Central regions and 32 acres in the West South Central region, compared to the other regions which except for two geographic divisions range from 32 to 91 acres per worker. The disparities per worker in investments in land and buildings, livestock, and equipment are equally as great.[42]

[39] Henry Schultz, *The Theory and Measurement of Demand*, pp. 299–310.

[40] South Atlantic, East South Central, and West South Central.

[41] Fulmer, *op. cit.*, pp. 156–57.

[42] Sherman E. Johnson, *Changes in American Farming*, U. S. Department of Agriculture, Miscellaneous Publication. No. 707, 1949, p. 74.

In the long run, however, what can be done for southern agriculture and what it will be able to do for itself depends upon how quickly and how much the educational level of the farm people is raised. Many farm management studies over a long period have demonstrated quite conclusively that financial success in farming is highly associated with the number of years of schooling and the kind of education the farmer had. The more highly trained farmers obtained greater financial success because they were more alert and progressive, had larger farms, and obtained higher labor and capital efficiency.

According to Census reports[43] on population, 37 per cent of all males 25 years or over in the ten cotton states[44] in 1940 had 4 years or less of schooling. Another 20 per cent had 5 or 6 years of schooling. In World War II persons with less than 5 years of schooling were considered functional illiterates (that is, inability to read and understand directions) and were discriminated against by the armed services and also by industry.[45] According to this standard, nearly four-tenths of the farm workers and operators in southern agriculture in 1940 were unable to read and understand directions. Another two-tenths were little better off because they had only completed the fifth or sixth grade. This means that about six-tenths of the males directly concerned with agricultural production in 1940 were beyond the reach of most of our educational and informational services.

The educational level of the masses has risen in the last ten years, but it is doubtful if much light has yet penetrated this part of the dark corner of our agricultural problem in the South. Perhaps these people are not important to southern agriculture; however, no one knows how important they are. In any event, they are of great consequence to the human part of southern agriculture as indicated by the high percentage of it which they represent. A first task is to redesign some of our informational services for their especial consumption. But a more important task, and one stretching indefinitely into the future, has to do with their education. As research men this may not exactly be our job, but finding out how to make education more interesting, efficient, and expedient would make a most important contribution to the solution of the social and economic ills of the region. From the standpoint of the cotton problem the results of raising the educational level of the masses of farmers would be many. There would be more interest in and ability to turn to other enterprises. Except where it can be mechanized to a large extent, there is little in cotton production to appeal to the intelligent farmer, for it is as a general rule not greatly in keeping with the progressive outlook which education demands. Furthermore, with more intelligence among the mass of farmers those of us who publish farm management bulletins and other reports of that sort in a technical vein would find more readers. Obviously, the number of persons who would be interested in the infor-

[43] Sixteenth Census of the United States, 1940, *Population, Vol. II.: Characteristics of the Population*, Parts 1–7.

[44] North Carolina, South Carolina, Georgia, Alabama, Tennessee, Arkansas, Mississippi, Louisiana, Oklahoma, and Texas.

[45] Rupert B. Vance, *All These People*, p. 384.

mation and who would be capable of putting it to effective use would expand manyfold.

The third major contribution of more education for the agricultural component of the South is that it would have both direct and indirect effects on the population pressure in the region. It is well known that the farm population reproduces itself in excess of replacement needs—in the ratio of about 2 to 1.[46] This means that about one-half of the farm youth must leave agriculture upon reaching maturity. Increased mechanization will tend to widen this ratio. Actually, the relief of population pressure in southern agriculture holds the answer to most of the serious problems of the region, as most rural economists agree. Although a higher level of education could not be of great immediate consequence, it would be of the utmost importance in the long run through reduced birthrates and increased incentives to migrate to cities. It is an accepted fact that the birthrate declines, in general, directly with each rise in the educational level.[47]

In the past, the better educated youths have been more prone to migrate from agriculture[48] and are expected to continue to do so. However, the many advantages to agriculture and to the welfare of the nation from keeping the more alert and better educated in farming suggest that this tendency should be reversed by making farm ownership more attractive for them. On the other hand, the incompetent and unenergetic should be encouraged to leave agriculture as fast as possible by special labor training programs to fit them for city and industrial employment. Continued rapid growth of industry in the South, which has been at an unprecedented pace in the last ten years, would be the strongest factor of all in bringing about this desirable shift in the farm population.

That population shifts of tremendous import to American agriculture have occurred in the last 10 years is obvious to those of us who have been following the Census releases of the last Census. For instance, there are 19 million more people in the United States than in 1940 and a market somewhat greater than 14.5 per cent because of the effect of higher incomes. The impact of the population increase on the domestic market for agricultural products exceeds the aggregate money value of our export market during 1935–39 by 1.2 times.[49] However, since the volume of agricultural production has expanded by 32 per cent,[50] we still need an export market for cotton, wheat, tobacco, and some other products; but this change in the domestic market makes the size of the export market less serious. Further population increases, which a leading agricultural economist[51] predicts, coupled with rising personal incomes on which national policy seems to be predicated, may eliminate the need for a foreign market for agricultural

[46] Smith and Roberts, *op. cit.*, p. 611.

[47] Vance, *op. cit.*, p. 106.

[48] Edmund de S. Brunner, "Internal Migration in the United States, 1935–40," *Rural Sociology*, Mar. 1948, p. 17.

[49] 14.5 per cent of the average personal consumption of food, tobacco, and clothing during 1935–39 expressed as a ratio to the dollar value of agricultural exports during the period.

[50] *Agricultural Statistics*, 1949, p. 597. Computed for period 1935–39 to 1944–48.

[51] J. S. Davis, "Our Amazing Population Upsurge," *Journal of Farm Economics*, Nov. 1949, pp. 765–78.

products in the next generation or two, certainly this is true if certain desirable retrenchments in cotton and wheat acreages were converted to feed and pastures and these products in turn to livestock and livestock products. The increases which would occur in these products would be relatively small[52] compared to present livestock production in the United States. The new parity formula is expected to assist this adjustment, but perhaps increased livestock production should be subsidized in the South through expanded marketing facilities and special informational and educational programs aimed at giving some part of that six-tenths of the population with a 6th grade education or less, and even others, the rudiments of livestock management.

Another population development which is of especial importance to southern agriculture has been the decline in farm population absolutely and relatively. From 1937–41 to July 1949 farm population in the south[53] declined 1.7 million persons or 10.8 per cent.[54] As of July 1949, about 34 per cent of the population in the South was rural-farm compared to 19 per cent for the United States. Although the proportion of the population living on farms in the South is still about the proportion which the United States had in 1920, the region is rapidly closing the gap since 51 per cent of its population was on farms no longer than 1920, 30 years ago.

The low rate of output of agricultural workers in the South cannot be entirely solved by moving people from agriculture, but it can be aided materially, if, as advocated, the marginal classes are moved out. Population pressure in southern agriculture from high birth rates and failure to find quickly adequate city and industrial jobs has been, and still remains to a considerable extent, the largest single problem of southern agriculture.

In this connection it is interesting to speculate on the effects of a shrinking farm population on the strength of political pressure on future agricultural policy. As the farm vote loses in relative importance, its power in the national Congress may be expected to dwindle, and we may witness in the next generation material modifications in the orientation, objectives, and scope of national policy towards agriculture.

In conclusion, agricultural policy has not accomplished as much in the past as intended, or even hoped for by its framers and sponsors. However, it has meant a great deal to southern agriculture from increased price stability and from improvements in the character and structure of the region's farming. Inequities have arisen under its various provisions and, despite amendments, these and other imperfections remain. They should be removed and benefits disbursed more in accordance with per capita income disparities. With regard to future agricultural

[52] See W. W. Wilcox, "Comments on Agricultural Policy," *Journal of Farm Economics*, Nov. 1949, pp. 810 and 813.

[53] Not the Census South. Includes West Virginia, Virginia, Kentucky, Tennessee, North Carolina, South Carolina, Georgia, Florida, Alabama, Mississippi, Arkansas, Louisiana, Oklahoma, and Texas.

[54] E. L. Langsford, "Adjustment Opportunities for Southern Agriculture," paper presented at the Agricultural Economics and Rural Sociology Section of the Association of Southern Agricultural Workers, Biloxi, Miss., Feb. 9–11, 1950, p. 61.

adjustment needs of the region, the existing legislation should be a beginning point, since adjustment machinery[55] is already set up and much practical experience has been gained in administering it. If scrapped and replaced by some bold, new scheme of agricultural relief, the advantages of this practical experience would be lost, for a period of trial and error would again be necessary and perhaps even of longer duration than before because the problems are complex.

As students of southern agriculture, we have an important role to play in the evolution of agricultural policy and in its perfection. It is up to us to inaugurate the necessary research to learn more precisely how existing legislation is affecting different groups of farmers, also how the stages of economic development and the different levels of economic activity influence the agricultural policy requirements of the region and of its various classes of farmers.

[55] This machinery proved adequate in reducing the cotton surplus to manageable proportions in 1950; it was the unexpected Korean War, however, which caused the shortage. When surpluses threaten, more is to be accomplished and with less expense, if prompt action is taken as in 1950, than if delayed as in 1930.

ON THE PHENOMENON OF INELASTIC DEMAND

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"The importance of collecting data for the purpose of enabling the manufac turer to ascertain how many additional customers he will acquire by a given reduction in the price of the article he makes cannot, be too strongly pressed upon the attention of those who employ themselves in statistical inquiries. In some ranks of society, any diminution of price in a commodity will bring forward but few additional customers; whilst, in other classes, a very small reduction will so enlarge the sale as to yield a considerable increase of profit."[1]

These are the words of Charles Babbage, written in 1833, almost 120 years ago. Mr. Babbage displays a remarkable degree of understanding of what today is commonly referred to as demand elasticity (with respect to price). Although his description lacks some of the precision and refinements which today are associated with this concept—particularly in its relation to profit—his statement is a battle-cry for empirical inquiries into demand phenomena, and especially demand elasticity. It took, however, many years before this plea was heeded. In the absence of adequate statistical techniques, businessmen and economists could do little more than observe the relative responsiveness of purchases of a given good to changes in its price. On the basis of such observations, intermingled with some intuitive reasoning, certain commodities were declared elastic and others inelastic. These statements were merely qualitative in nature. Quantitative inquiries appeared much later. Since the early nineteen twenties the number of statistical demand analyses has been steadily increasing. The development of the least squares technique had made possible the quantification of demand functions and demand elasticity coefficients. Such quantitative information has since been obtained for various commodities in many European countries, India, Turkey, and particularly the United States.

Although Mr. Babbage recognized the importance for firms to know the demand elasticity they face, i.e., firm demand elasticities, empirical research has been primarily concerned with commodity demand, or what is often called market or industry demand. Neglecting firm demand and emphasizing instead market demand became necessary in the absence of firm quantity and price data.

We agree with Alfred Marshall who stated some sixty years ago: "I believe that inductions with regard to the elasticity of demand and deductions based on

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[1] Charles Babbage, *On the Economy of Manufacturers*, London, 1833, p. 98–99.

them have a great part to play in economic science."[2] We therefore have collected what we believe to be most of the published demand analyses together with certain unpublished ones. From these demand studies corresponding demand elasticities were derived. They are presented in Table 1.

We would like to put this empirical information to a more general use. Particular emphasis will be placed on the problem of pricing under inelastic demand conditions.

In the following pages we shall present (1) empirical commodity demand elasticity findings; (2) certain limitations and applications of the data; (3) a generalized analysis of firms' pricing under inelastic demand, and (4) some concluding remarks.

I

A survey of the results reveals that, in most of the empirical studies that we could find, inelastic demands were more often indicated than elastic ones. Commodies analyzed in the United States on the producer-manufacturer level and in the United Kingdom and Turkey on the retail level[3] exhibit a rather striking uniformity in that they are over-whelmingly inelastic. More specifically, of 34 commodities whose demand elasticity was estimated on the producer-manufacturer level in the United States, all but four were inelastic; and two of the four elastic commodities were inelastic in part of the period analyzed. If we turn to the wholesale level, on which 16 commodities were analyzed, there were just as many elastic commodities as inelastic ones. Very few empirical retail demand studies have been made in the United States. Of the few studies made on the retail level, milk was found to be highly inelastic, pork slightly inelastic or perhaps unit-elastic, and low-priced automobiles in one analysis appeared to be elastic and, in a second, inelastic. Of 8 commodities analyzed on the retail level in the United Kingdom all but oleomargarine were inelastic. Professor Omer

[2] "On the Graphic Method of Statistics," *Journal of the Royal Statistical Society*, Jubilee Volume, 1885.

[3] We consider it important to recognize that demand elasticity with respect to price often must be defined with respect to a particular point on the demand function, i.e., price and quantity; it also must pertain to a specific stage within the production-marketing system. The first part of this statement is common knowledge. The latter part, however, may require some clarification. The demand elasticity with respect to price of commodity x, isolating or partialling out the effect of all other factors than quantity and price, i.e., a partial elasticity coefficient, may be defined as $\eta d/p = \partial q_x/p\partial_x \times p_x/q_x$. The factors whose influence is held constant often are income, prices of other commodities, and time trend. As far as an industry is concerned, in many cases almost equal amounts of the commodity are produced, wholesaled and retailed. However, the price of the commodity varies from stage to stage, i.e., it is higher on the retail level than on the producer's level. Depending on the way marketing costs are incurred and charged the slope of the demand function, i.e., $\partial q_x/\partial p_x$, may change or remain constant. The slope will change if a constant percentage markup is charged. That the elasticity varies over the marketing stages is borne out in the case of prunes, plums and pork in Table 1. If we wish to neglect the stage on which elasticity is measured, we would have to define a commodity by production-marketing levels. The magnitude of the demand elasticity will vary with the time period involved, the market under consideration and the determining variates considered.

TABLE 1

*Estimates of Demand Elasticities with Respect to Price of Various Commodities Producer-Manufacturer Level, Wholesale Level and Retail Level**

COMMODITY	ELASTICITY OF DEMAND WITH RESPECT TO PRICE	YEAR	SOURCES
Producer-manufacturer Level			
Steel	−0.3 to −0.4	1919–1938	1
Automobile Steel	−0.2 to −0.3	1919–1938	2
Tin Plate	very inelastic	1919–1938	3
Wool (mill)	−0.5	1922–1934	5
Wheat	−0.2	1921–1934	7
Rice	smaller than −0.65	1914–1930	8
Corn	−0.53	1915–29 (excl. 1917–21)	7
Barley	−0.39	1915–29 (excl. 1917–21)	7
Oats	−0.6	1915–29 (excl. 1917–23)	7
Rye	−0.4	1875–1914	7
Rye	−2.4	1915–29 (excl. 1917–21)	7
Buckwheat	−1.3 to −1.5	1879–1895	7
Buckwheat	−0.6 to −0.9	1896–1929 (excl. 1917–21)	7
Coffee (Import Price)	−0.75	1881–1913	10
Sugar	−0.3	1915–29 (excl. 1917–21)	7
Potatoes	−0.3	1915–29 (excl. 1917–21)	7
Hay	−0.4	1915–29 (excl. 1917–21)	7
Pork	−0.6	1921–1937	11
Spring Lettuce	−0.32	1918–1946	12
Winter Lettuce	−0.21	1918–1946	12
Summer Lettuce	−0.33	1918–1946	12
Fall Lettuce	−0.26	1918–1946	12
All Lettuce	−0.52	1918–1946	12
Summer Lemons	smaller than −0.4 to −0.5	1922–1941	13
Winter Lemons	smaller than −0.5	1922–35 and 1938–41	13
California Summer Oranges	smaller than −0.5 to −0.7	1923–1940	14
California Winter Oranges	smaller than −0.4 to −0.5	1922/23–1939/40	14
Early Calif. Plums	−0.98	1928–48 (excl. 1943–45)	15
Mid-season Calif. Plums	−0.41	1928–48 (excl. 1943–45)	15
Late Calif. Plums	−0.99	1928–48 (excl. 1943–45)	15
Calif. Bartlett Pears	−1.25	1925–1940	16
Louisiana Strawberries	−2.70	1924–1940	17
Cranberries	smaller than −0.8	1931–1941	18
Tokay Grapes	−0.4 to −0.5	1921–1931	19
Dried Prunes	−0.83	1922–41 and 1946	20
Cotton	−0.12	1914–1929	7
Wholesale Level			
Summer Lemons	−0.4 to −0.5	1922–1941	13
Winter Lemons	−0.5	1922–35 and 1938–41	13
Calif. Summer Oranges	−0.5 to −0.7	1923–1940	14

* All elasticity coefficients, unless otherwise indicated, pertain to the United States.

TABLE 1 (*Concluded*)

COMMODITY	ELASTICITY OF DEMAND WITH RESPECT TO PRICE	YEAR	SOURCES
Wholesale Level (*Continued*)			
Calif. Winter Oranges	−0.4 to −0.5	1922/23–1939/40	14
Early Calif. Plums	−2.84	1928–48 (excl. 1943–45)	15
Mid-season Calif. Plums	−1.25	1928–48 (excl. 1943–45)	15
Late Calif. Plums	−3.00	1928–48 (excl. 1943–45)	15
Louisiana Strawberries	−3.36	1924–1940	17
Cranberries	−0.8	1931–1941	18
Tokay Grapes	−1.3 to −1.6	1921–1931	19
Dried Prunes	−1.6	1922–41 and 1946	20
Potatoes	−0.5	1902–1924	21
Corn	−0.6	1897–1926	22
Canned Clingstone Peaches	−1.3	1924/25–1940/41 and 1946/48	23
Calif. Bartlett Pears	−3.75	1925–1940	16
Cigarettes	−0.68	1923–1931	4
Retail Level			
Low-Priced Automobiles	−0.65 to −1.5	1919–1938	24
Milk	−0.22	1924–1941	28
Milk (Boston, Class I)	−0.07	1922–1931	6
Tea (U.K.)	−0.55	1924–1936	9
Tea (U.K.)	−0.05	1870–1938	26
Pork	−0.8 to −0.9	1922–1930	25
Beer (U.K.)	−0.66	1870–1938	26
Spirits (U.K.)	−0.86	1870–1938	26
Drinks (U.K.)	−0.59	1870–1938	26
Tobacco (U.K.)	−0.31	1870–1938	26
Margarine (U.K.)	−1.10	1870–1938	26
Potatoes (U.K.)	−0.90	1870–1938	26
Soap (U.K.)	−0.04	1870–1938	26
Sugar (Turkey)	highly inelastic		27
Salt (Turkey)	highly inelastic		27

Celal Sarc of the University of Istanbul found that in Turkey salt and sugar was highly inelastic on the retail level. (See Table 1).

II

The empirical evidence indicates that apparently numerous commodities are inelastic in demand. Before we proceed from here, we do well to comment briefly on the nature, reliability and significance of this evidence.

Cognizance must be taken of the fact that the presented empirical demand elasticities by no means constitute a "representative" sample. Availability of data and not considerations of statistical sampling procedure dominated the collection of evidence.

As to the adequacy of the empirical data on which the results are based, there is evidence that in the various demand analyses a real effort was made to obtain the best possible data. To quote Professor Henry Schultz (whose results are extensively used in this paper): ". . . we believe that they (the data) are sufficiently

accurate to yield good approximations of the demand curves of most of our commodities."[4]

Another important problem is how appropriate and how powerful are the statistical techniques used. We recognize that, to the present day, statistical techniques used for demand analyses have numerous limitations. For the purpose of firms' pricing decisions it is naturally important to have precise elasticity coefficients whose reliability is beyond doubt. However, such a precision is not needed in order to argue in terms of a dichotomy, i.e., elastic versus inelastic demand. For the argument of this paper it is sufficient to know whether a commodity is elastic or inelastic.

The question arises of how much important information is left uncovered by presenting and arguing in terms of average demand elasticities, i.e., elasticities averaged over a number of years and over broad geographical areas. We realize that what is often more important is the demand elasticity during a given year, month, week or even day. For the purpose of our argument, however, such considerations may be neglected, because we are concerned with broad tendencies. Suffice it to say that if we find the average demand elasticity to be quite low, the chances are that the commodity has been inelastic during most of the years. For instance, in the United States the average elasticity (1922–41) for summer lemons on the wholesale level was -0.4 to -0.5. An analysis of the corresponding annual demand elasticities reveals that lemons on the wholesale level were inelastic in every year under consideration.[5]

There is also the issue of whether empirically derived demand functions are in the nature of short-run or long-run demand functions of economic theory. It seems to the present writer that in a strict sense they are neither. It may be claimed that because the time factor is isolated and removed, the results approximate short-run demand functions. If one claims, however, that the results were obtained by using observations over a period of 10–25 years and that they therefore approximate long-run functions, the corresponding short-run functions may very well be less elastic, because the shorter the period involved the fewer the possibilities of substitution.[6]

If we accept the empirical evidence as showing that numerous commodities are inelastic in their demand, the question arises whether only industry demand functions are inelastic, or whether firms may also be operating under inelastic demand conditions.

[4] *The Theory and Measurement of Demand*, p. 173.

[5] G. M. Kuznets and L. R. Klein, "A Statistical Analysis of the Domestic Demand for Lemons, 1921–41," Giannini Foundation of Agricultural Economics, *Mimeographed Report No. 84*, June 1943, p. 23.

[6] The realism and applicability of the formal distinction between short-run and long-run appears limited at best, and, therefore, the importance of this issue should be considered with a grain of salt.

However, whatever the importance of the various limitations of empirical demand elasticity studies may be, it is of significance to note that certain industries, e.g., the United States lemon industry, apparently fully accept the findings under discussion. As a matter of fact, they not only accept them as adequate, but attempt to formulate their manufacturing and sales policies accordingly.

Whether the knowledge of the market demand elasticity assists in estimating the magnitude of the corresponding firm demand elasticity depends primarily on the structure of the market. A purely competitive firm faces a highly, if not perfectly, elastic demand irrespective of the market elasticity for its commodity. It is not only the large number of competitors which makes the demand facing the firm more elastic than that of the industry. The degree of product differentiation and product competition is also most important. However, there appear to be two broad groups of market structures where market demand elasticity sheds substantial light on firm demand elasticity.

On the one hand there are those cases where the firm and the industry coincide, and the market or industry demand is the significant function for the firm. Legalized cartels, e.g., industry-wide marketing cooperatives and marketing agreements in agriculture, legalized single firm monopolies, e.g., public utility companies and labor unions, and secret collusions would fall into this category. Thus, for instance, among the commodities found to be inelastic on the producer-manufacturer level, the lemon, summer orange, plum and Tokay grape producers have openly delegated the power of making important sales policy decisions to an industry-wide control board. This board is faced by the industry's market demand, and with regard to the industry's output, it can regulate sizes and grades, as well as the flow of goods over time and space. The same is true with regard to fluid milk, the market area of which is not national but more restricted. In such cities as Boston, Chicago, Cincinnati, Cleveland, New York, Kansas City, Philadelphia, St. Louis, Minneapolis, St. Paul and many others, marketing orders are in effect. In these cases, the Federal milk market administrator faces the demand of the marketing area and establishes minimum producers' prices accordingly.[7] Those are some examples of legalized cartels. Furthermore, in the industrial sector there may be numerous instances of secret collusion.

On the other hand, there are those cases where firms which control a considerable share of the market pursue a price matching policy. Industry and firm elasticities will tend to be similar in monopolistic and oligopolistic industries in which price adjustments by the industry's firms are simultaneous.[8] In a monopolistic or oligopolistic industry in which price changes initiated by one firm are followed by all others, Professor Chamberlin's DD′ and not dd′ function will become relevant with regard to a firm's pricing policy. The firm's DD′ function is of an elasticity similar to the industry's demand function. Firms extracting and producing raw materials on a large scale as well as manufacturers of undifferentiated products may behave this way. The product may not have to be completely un-

[7] United States Department of Agriculture, Production and Marketing Administration, *Price Programs of the United States Department of Agriculture, 1949*, Miscellaneous Publication 683, April 1949, p. 36.

[8] See E. H. Chamberlin, *The Theory of Monopolistic Competition*, (5th ed.) pp. 90–91. Furthermore, a price-matching oligopoly is not necessarily the same as price leadership which is said to exist only if "a powerful concern takes the lead in announcing policies which are followed by a substantial number of lesser concerns." (C. D. Edwards, *Maintaining Competition*, p. 35–36). Price leadership may be considered to be a special case, although perhaps a very common one, of price matching oligopoly, where theoretically any one of the firms can initiate the price change and coercion may not enter the picture.

differentiated in order to induce a price-matching policy. Under such conditions the demand facing the firm may be of similar elasticity to the industry's demand. Among the industries analyzed and found to face inelastic demand in the United States, some, like the steel and cigarette industry, appear to fall into this category. It may, therefore, be not too uncommon for legalized cartels, legalized single firm monopolies, secret collusions, or price-matching oligopolists producing raw materials or manufacturing commodities which are not easily differentiated, to operate under inelastic demand conditions.

We are, therefore, unable to dismiss the empirical evidence by simply stating that it does not reflect on the pricing problem of firms. Instead, the presented empirical findings appear to indicate that there are firms which operate under inelastic demand conditions. The question immediately arises of how these firms can price their product.

We, thus, turn our attention to price theory, i.e., pricing under inelastic demand conditions. However, this transition requires some comments concerning the relation between empirically derived and theoretical demand functions. Establishing these relations involves an analysis of their assumptions. It is most difficult to reach an unequivocal conclusion with regard to the consistency of the assumptions underlying theoretical and empirical demand functions. We are inclined to take the position that the assumptions are sufficiently consistent with each other to permit the integration of empirical demand elasticities with certain parts of the apparatus of price theory.

The pricing principle is usually stated as follows: The necessary profit maximizing condition requires that the firm operates at that output at which marginal revenue equals marginal cost. The second or sufficient maximum condition states that at the point of intersection the marginal cost increases more rapidly with respect to output than the marginal revenue, i.e., that the marginal cost curve intersects the marginal revenue from below.

At first glance it appears as if conventional price theory is unable to explain the behavior of firms faced by an inelastic demand, because—on a formal level—such firms could not equate marginal cost with marginal revenue. This assertion can be easily demonstrated. In the area in which demand is inelastic, marginal revenue will be negative.[9] The necessary condition of a profit maximization (over any stipulated period of time) would involve equating negative marginal revenue values with negative marginal cost values. However, negative marginal cost values would be associated with decreasing total costs. As total costs, without a change in technique, always increase with respect to volume, no equilibrium could be found. Conventional pricing theory, therefore, appears to break down under inelastic demand conditions. Or, stated differently, the profit maximizing conditions of conventional pricing theory implicitly exclude pricing under inelastic demand conditions.

[9] Since $MR = p(1\text{-}1/\eta)$ and η is negative, then $MR < 0$ when $\eta < 1$,
where MR = marginal revenue
p = price per unit of product, and
η = elasticity of demand with respect to price.

In spite of the fact that according to the preceding formal presentation, a firm which operates under inelastic demand conditions could not meet the conventional profit maximizing conditions, such a firm may reach an equilibrium. The equilibrium of a firm which suddenly recognizes that it is faced by an inelastic demand appears to lie in the direction of a more elastic demand. Usually a higher demand elasticity will be associated with a reduced volume and higher price.[10] The profit motive of single firm monopolists and price matching oligopolists selling inelastic commodities calls for witholding of output or shipments, because by moving along the demand function from an inelastic point toward a more elastic one the firm's total receipts will be enhanced up to a certain point while its total cost would tend to fall. During a general decline in business activity sticky prices would serve the firm best.

The direction of the equilibrium is clearly indicated in the sales policies of the United States lemon industry. Recent analyses point to the fact that the United States farm demand for lemons in 1922 was around -0.5. In 1923, the so-called "lemon agreement" was initiated. According to this agreement the sale of about 90 per cent of the United States lemon crop came under the control of a marketing board. Under the Agricultural Adjustment Act of 1933 this voluntary agreement was transformed into an industry-wide compulsory one. In the face of inelastic demand conditions the lemon marketing board, unable to curtail the production of lemons, successfully kept a high percentage of the crop off the fresh fruit market. As a matter of fact, for many years the board has prevented more than 30 per cent of the lemon crop from reaching the fresh fruit markets.[11] These 30 per cent are converted into by-products, often barely paying the processing cost, or are destroyed altogether.[12] It is important to realize that in spite of the restrictive practices, the lemon marketing board to this day faces an inelastic demand.

We are, therefore, still left with the problem of indicating whether these firms, which according to our statistical findings are faced by an inelastic demand, have reached an equilibrium, and if so, what the nature of this equilibrium is. In this respect it appears useful to explore, even if only on an intuitive basis, certain

[10] The theoretical exceptions are unit-elastic and linear logarithmic demand functions.

[11] California Fruit Growers Exchange, Marketing Research Department, *1947 Statistical Information on the Citrus Industry*, Los Angeles, May 1947, p. 17.

[12] In spite of the fact that the equilibrium of firms operating under inelastic demand conditions appears to be in the direction of a more elastic demand, most conventional economic theory reasons in terms of firms' efforts designed to decrease the demand elasticity facing it. This reasoning, at least in part, is a result of the well-entrenched emphasis on pure competition, both as a norm and as a point of departure. Purely competitive firms, it is argued, are faced by a highly elastic demand, and their desire for higher profits induces them to decrease the demand elasticity facing them. The same profit motive under inelastic demand, however, requires a reasoning which leads into the opposite direction. On the surface it may appear that a policy designed to increase demand elasticity is not consistent with the usually accepted one of decreasing elasticity. Actually, the two are not inconsistent. In both cases it is the profit motive which underlies the policy; the difference being only in the point of departure and, therefore, in the direction in which the equilibrium lies.

characteristics of empirical demand functions which are inelastic over the range of observed data.

III

Most of the studies made in the United States and covered by us involve linear demand functions fitted on rectangular coordinates. In the study pertaining to the United Kingdom also linear demand functions were fitted, however, on logarithmic coordinates. These relations only hold for the range of observed data. The statistical analysis leaves us uninformed about the relationship beyond the range of observed data. However, reason and experience lead us to believe that in numerous cases inelastic segments of demand functions cannot be simply extrapolated. Instead of continuing to rise as a straight or logarithmic function, in certain cases a downward kink or downward curve may be expected in the demand function. In other cases we may expect the demand function to be truncated beyond the range of observed data.

There are numerous forces which can kink or truncate a demand function in the high price range. We have shown before that profit-geared firms which operate under inelastic demand conditions will tend to restrict sales. Firms faced by a highly inelastic demand would have to curtail supply and hike prices to a very large extent before they could reach an elastic demand. However, such a price rise would call for substitutes to take the place of the high priced commodity. After the price has been raised to a certain level, other commodities which hitherto had not been competing are apt to become effective substitutes. This may be illustrated by referring to an inelastic commodity such as Tokay grapes (for which the demand elasticity on the producer level during 1921–31 was on the average about -0.4 to -0.5.) In order to reach an elastic phase, the firm, in this case the marketing control board, would have to restrict sales and hike prices substantially. Consumers would soon shift to substitutes. Varying amounts of other grape varieties, apples, pears, strawberries, plums and even oranges would be likely to take the place of Tokay grapes in consumers' diets once the price got too far out of line. Over the range of observed data some of the forces which at higher prices take away sales volume from the Tokay grape producer have been dormant. With these forces coming into play beyond a certain price, volume would fall off more rapidly, i.e., from a certain price onward the slope of the demand function would decrease, and a kink would be formed. To the left of the kink the demand elasticity would have increased. Statistical techniques could not detect such a kink which may be said to result from active intercommodity (or interindustry) competion. Volume may fall off so rapidly that either past experience may have taught the firm not to get into this area; or its stay there, before taking corrective measures, may be so brief as not to be revealed in the empirical observations. Observations at both ends of a cluster of observations are too sparse, anyway, to indicate a clear-cut direction. Under such conditions most statisticians would be most reluctant to fit a function which is kinked at its extremities.

Not only market demand and, therefore, single firm monopoly demand func-

tions can be kinked as a result of active intercommodity competition. Price matching oligopolists can encounter a similar kink in their respective demand functions.

In addition to a kink brought about by active intercommodity competition, a price matching oligopolist may face a second type of kink. An oligopolistic industry which sells a homogeneous inelastic product may have been pursuing a price matching policy for many years. If one firm hikes its price, it hopes that the other firms will follow suit. If this hope is realized, the firm will face its DD′ functions whose elasticity is similar to the industry's elasticity. If, however, a certain price increase by one of the oligopolists is not matched by the other members of the industry, the firm will no longer be faced by DD′, but it will find itself somewhere on dd′ which is more elastic. Thus, the demand facing the firm which contemplated a general price increase will have a kink. The kink will be at the price charged by the other firms. Were the commodity completely homogeneous and the market perfect, dd′ would be a horizontal line to the left of the kink. The firm would have to return to the earlier price. Instead of returning to the generally charged price the firm may offer discounts, which may be considered a disguised way of rescinding the price hike. If the commodity is not completely homogeneous, the firm to the right of the kink will face a demand which is possibly elastic, although not perfectly elastic.

Liggett and Meyers, for instance, appear to have encountered such a kink. In the United States cigarette industry the major cigarette manufacturers had identical list prices between 1928 and July 1946. Again, on April 25, 1946, all manufacturers raised prices simultaneously. On August 1, 1946, Liggett and Meyers attempted to institute a new price hike. However, this time the other manufacturers did not follow suit. Liggett and Meyers apparently encountered such a kink because on August 6, 1946, i.e., after less than a week, it rescinded the price rise.[13] It seems that in most cases firms succeed in abstaining from thus "getting out on a limb." It is very likely, however, that oligopolists in their pricing policies account for the existence of a kink. Such a kink, therefore, may exist more often in the mind of the executive than is evident on the market.

In addition to facing a kinked demand as a result of active intercommodity competition and imperfection in the price matching process, respectively, a firm who faces an inelastic demand and pursues a restrictive, high-price policy may be faced by a truncated demand. Demand functions are truncated because of firms' long run considerations. The firm's concern over the future can induce it to establish a limit price. Naturally, if no price higher than the limit price is charged, the demand function is truncated at that price. If there were a horizontal segment to the left of the limit price, it could not be called an ordinary demand function because it does not express the net relationship between quantities buyers demand and prices they are willing to pay. Buyers would be willing to pay more than the limit price for quantities which are smaller than those to the left of the cut.

[13] *The New York Times*, Aug. 7, 1946, p. 29, column 3.

The establishment of a limit price is associated with a firm's long range interests. If we take a case in which a firm suddenly realizes that it operates under inelastic demand conditions, it may be able to curtail its sales volume to such an extent as to reach its short-run profit maximizing volume and price. So small a volume and so high a price, however, may prove fatal in the long run. High prices associated with high profits induce new firms to enter the industry. In order to forestall potential new competition, a firm could charge a limit price. It would tend to sell all it can for that price. If it offered less than the market is ready to take at that price, the firm could not maintain that price; and new firms would tend to enter. Because, in the first place the firm presumably established the limit price in order to prevent entry of competitors, such behavior seems most improbable.

In their endeavor to forestall potential new competition, firms are not only concerned with preventing new firms from producing its product; they also aim at forestalling other commodities from encroaching on theirs. If a commodity is too high in price, there will be a strong incentive to invent or discover substitutes. For instance, institutional price increases of cotton in the form of high parity prices and of wool in the form of high tariffs have certainly induced rapid development of synthetic fibers, which are at present intruding heavily on the market for cotton and to some extent on that for wool. Firms' long range interests, therefore, may be best served by a price which successfully prevents inter- and intra-industry competition.

There are some other long range considerations which also appear to play an important role in firms' price policies. The success of most enterprises depends to no small extent on the good will of the public and its guardian, the government. Restrictive practices are apt to strain public relations and bring about government intervention under the Antimonopoly Laws. Firms, and particularly those which are interested in profitable operation in the future, would tend to set a limit price which would reflect their respect for the public and the Antitrust Division of the Department of Justice.

We may, therefore, conclude that it may not be too uncommon to find that firms which operate under inelastic demand conditions establish a limit price. The level of the limit price and the corresponding sales volume will be such as to prevent undesirable potential inter- and intra-commodity competition, to maintain the good will of the public and to forestall potential government intervention.

It is obvious that the various forces which make for kinked and truncated demand can, and apparently do, operate simultaneously.

In a sense, the preceding pages may be looked upon as an appraisal of the empirical demand elasticities which were so overwhelmingly inelastic. Although there is reason to expect firms operating under inelastic demand conditions to encounter or anticipate kinked and truncated demands, statistical demand analyses will usually be unable to reveal such phenomena. This point must be kept in mind in interpreting certain demand studies and in searching for an explanation of pricing under inelastic demand conditions.

The fact that demand functions may be kinked or truncated beyond the range of observed data offers us new possibilities for explaining the pricing action of a firm, which according to empirical findings operates under inelastic demand conditions. If the firm were aiming at obtaining the maximum profit possible in a very short period of time, e.g., one year, and the firm's product had no substitutes during this period, the firm would tend to restrict output until it reached a unit-elastic or elastic demand phase. However, in practically all cases substitutes do exist, and the firm is vitally interested in the future of its enterprise. In the past, the firm may have encountered a kink in its demand, or such a kink may be feared. In such a case the kink will be the equilibrium, particularly if demand to the left of the kink becomes elastic. If demand to the left of the kink is elastic, marginal cost can either intersect marginal revenue to the left of the kink or can pass between its positive and negative segments. In either case, a conventional profit maximizing equilibrium could be reached at the kink. If demand does not become elastic to the left of the kink, no such equilibrium could be found. The kink would constitute an equilibrium associated with best possible profit, but not with equal marginal cost and marginal revenue values. The latter part would be of little concern to businessmen; they hardly ever calculate marginal cost or marginal revenue functions, anyway. In the absence of a better term we suggest to call the conventional equilibrium a *maximum maximorum*, and the one which is devoid of the formal condition of equal marginal cost and marginal revenue values we may call a relative maximum.

We pointed out before that because of the firm's concern over the future, it may establish a limit price. The limit price analysis appears particularly relevant to firms which are faced by a highly inelastic demand and, thus, may have to consider wide price and output manipulations. Attempts at reaching an elastic demand phase would be associated with the most acute danger from government intervention and from new competition inside the industry as well as from related industries. These threats are likely to convince firms of the necessity to establish a limit price even before the elastic demand phase could be reached. The limit price would constitute an equilibrium. If it were in the inelastic phase, it would not be a *maximum maximorum*, although it would be associated with the largest profit that appeared attainable consistent with the firm's long range interest.

IV

The preceding analysis bears on the application of conventional pricing theory in the case of inelastic firm demand, alternative pricing methods under such conditions, and the performance of and possible public policies toward firms operating under inelastic demand.

In the light of the evidence submitted in the early part of this paper, we are inclined to conclude that on the markets of the United States, the United Kingdom and possibly also other countries, numerous inelastic commodities are sold. Some of them are sold by legalized cartels, e.g., industry-wide marketing cooperatives or marketing agreements; legalized single firm monopolies, e.g.,

public utility companies; groups which secretly colluded; or price matching oligopolies. In such cases the firm also faces an inelastic demand and negative marginal revenue values. At first glance conventional price theory appears to break down, because negative marginal cost values are unthinkable. A more careful consideration, however, appears to offer an explanation of the behavior of firms under inelastic demand. If they are profit geared, they will tend to pursue restrictive practices, which can lead to a kinked demand function. Among the important reasons is intercommodity competition and intra-industry competition in the case of price matching oligopolists. If such a kink exists at the point at which the demand elasticity is measured, we usually will be unable to get a precise knowledge of its actual magnitude. At the kink elasticity is not single valued, and statistical techniques are likely to reveal but its lowest value. Depending on how sharp the kink is an equilibrium which is either a *maximum maximorum* or a relative maximum may be reached.

The tendency for restrictive practices can lead also to truncated demand functions. The limit price incorporates the firm's concern over potential new competition, maintenance of the good will of the public and potential government intervention. Truncated demand functions will often involve an equilibrium which is only a relative maximum.

The attacks on marginal analysis are numerous and widespread. However, whatever the realism and applicability of marginal analysis in micro-economics may be, its usefulness is most limited in the case of firms operating under inelastic demand conditions. In practice, pricing by single firm or quasi-single firm monopolists requires a good estimate of general demand and cost conditions. The price which will be set will strongly depend on whether the entrepreneur is interested primarily in immediate profits or in the perpetuation of his business. If the latter is the case, the price will be based on the entrepreneur's estimates of the present effectiveness and future availability of substitutes, the possibility and extent of new competitors entering the industry, the possible reaction of the public and the probable attitude of government.

A price matching oligopolist would have to consider, furthermore, how far he could expect the other members of the industry to follow him in the price change. These are some of the important variables which are of interest to the entrepreneur in such a case. He may benefit from a research staff which advises him. Whenever his information is insufficient, he will "play safe," i.e., tend to move cautiously, and try to maintain the price. There will also be a particularly strong tendency to maintain the price during periods of general downward price adjustments.

The preceding argument indicated that under inelastic demand conditions profit geared firms would tend to indulge in restrictive practices and their prices would tend to be sticky during a general decline of business activity. Such phenomena are often considered undesirable from a social welfare view.

It is doubtful whether Anti-Trust action designed to break up large concerns which sell inelastic homogeneous products would prove very helpful. Such a process may result in an increase of costs and each oligopolist would continue

to face the same inelastic demand faced by the industry. However, it is important to be aware of the correcting effect which the mere threat of government intervention engenders in terms of low limit prices.

In such instances in which these influences appear insufficient, government intervention may have to take new forms. Competition by a firm which is not profit geared, i.e., a government corporation, could have a healthy influence. Such a government owned enterprise, if efficiently operated, could reduce prices and thus bring about a general reduction in prices and increase in output. In this context President Truman's message to Congress on the State of the Union, in which he recommended (on January 5, 1949) "... to ... study ... the adequacy of production facilities for materials in critically short supplies, such as steel; and, if found necessary, to authorize Government loans for the expansion of production facilities to relieve such shortages, and to authorize the construction of such facilities directly, if action by private industry fails to meet our need ..."[14] is of particular interest.[15] The steel industry naturally claims that because historically it experienced wide variations in demand, it cannot afford to expand so as to meet the peak demand. However, this argument does not deny the desirability of government participation in steel production if restrictive practices are established. As a matter of fact, government owned steel furnaces should primarily assist in meeting "excessive" demand. They could be shut in slack times. Their mere existence could prevent private steel producers from implementing restrictive practices.

Instead of this approach, in certain cases it may be preferable to have government control the prices of products sold by price matching oligopolists or single firm monopolists. Price regulation by government in the field of public utilities has been widely accepted, and it may, therefore, not be too difficult to broaden the list of industries the prices of which are regulated by government.

Naturally, the justification and desirability of these approaches would have to be judged in a much broader setting.

In addition to direct government intervention, other ways of attack are open. Production, manufacturing and wholesaling is often more highly concentrated in the hands of a few than is retailing. Thus, the seller's bargaining power often exceeds that of the buyer. Strengthening the buyer, or better, balancing

[14] *The New York Times*, Jan. 6, 1949, vol. 98, no. 33, 220 p. 4.

[15] Demand for steel between 1919 and 1938 was apparently highly inelastic (see Table 1), and there is little evidence that since that time steel has become elastic. For many years price matching has been common in the steel industry. Of 83 steel producers in 1945, the four largest firms controlled 64.2 per cent of all U. S. ingot capacity (U. S. Steel—35.2 per cent, Bethlehem Steel—13.5 per cent, Republic Steel—10.2 per cent and Jones and Laughlin —5.3 per cent). In the same year the 8 largest firms controlled 79.5 per cent of all U. S. ingot capacity. (American Iron and Steel Institute, *Directory of Iron and Steel works of the United States and Canada*, New York (24th edition), 1945, pp. 509–11).

The United States steel industry may, therefore, be considered a price matching oligopoly. The fact that steel is still inelastic is no proof that the steel producers did not pursue restrictive practices. Instead, it shows that the counteracting forces are at work. As to the actual performance of the steel industry, further research is needed before one could be sure that the steel industry indulges in restrictive practices.

the bargaining power of buyer and seller may help to combat scarcity, particularly as the demand facing retailers often appears more elastic than that facing his suppliers. The retail trade can be strengthened by offering it more convenient credit and tax arrangements and by strengthening retailer and consumer cooperatives.

In general, a policy designed to nurse the various forces which can kink and truncate inelastic firm demand functions appears desirable. Government can help here by facilitating the financial arrangements and by mitigating the tax burden of young enterprising concerns. Changes in the patent laws and tariff level may also be considered.

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ECONOMIC FLUCTUATIONS AND GOVERNMENTAL POLICY

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I

The last severe crisis and depression to engulf the economy of the United States occurred during the fall and winter of 1937–38. The rally from mid-1935 was cut short in September 1937 and once again the economy was submerged in gloom. The Administration embarked upon a renewed program of large-scale public expenditure in the spring of 1938, and this program continued until the military preparations of 1939 and 1940 carried the economy upward toward the unprecedented levels of output, consumption, and employment which were attained during World War II.

The principle most worthy of notice in this episode is that the New Deal reverted to a public policy which had been utilized intensively from 1933 to late 1936 without startling success. Reasons were found for this apparent failure of pump-priming to "reflate" the economy upward to satisfactory employment levels. It was argued that the expenditures were too small, the projects ill-planned, the stand of business was anti-Administration, the concentrations of unemployment were not contiguous with areas needing public improvements, etc. Notwithstanding these problems and discords, many able economists were then, and are now, convinced of the inherent instability of our economic mechanism and of the necessity for stabilizing and dampening measures in time of crisis and recession.

In more recent years, a notable following in favor of government action in time of economic peril has developed throughout all sectors of our population. A rather conservative Congress passed the Employment Act of 1946 which promises high levels of production, employment, and purchasing power. The Council of Economic Advisers certainly favors government intervention to combat deflationary tendencies, and members of labor and agricultural groups have cast significant votes in the national elections for government aid. In other words, little reason seems to exist for expectations of a non-interventionist attitude by government in time of economic misfortune. Most trends are precisely the opposite, and, thus, we may depend upon the utilization of a vast array of anti-depression weapons by the government when a recurrence of the 1937–38 episode threatens. Admitting this, one should make certain that the weapons are properly selected and employed. It is with this matter that this particular paper is concerned.

II

Government anti-depression policy is customarily divided into the *monetary* and *fiscal* categories. This dichotomy is useful for at least two purposes. First,

monetary measures were used in the "twenties" as the single important group of stabilizing techniques, while fiscal measures came into their own during the "thirties" after the inadequacy of the monetary devices had been clearly demonstrated during the preceding decade. At no time during the "thirties," however, were the monetary weapons discarded. They were in fact supplemented by the Banking Act of 1935 which empowered the Board of Governors of the Federal Reserve System to change member bank reserve requirements up to twice their historic values. Nonetheless, fiscal devices commanded even more attention and respect as "reflationary" aids than did monetary plans throughout the New Deal era.

The second basis for the two-fold classification is that the monetary approach is much more flexible than is the fiscal. Alterations in reserve requirements, rediscount rates, open-market operations, margin requirements, and credit policy may be made on literally a week-to-week basis.[1] Conversely, fiscal techniques are notably more cumbersome. Even with numerous "shelves" of public improvement projects, the execution of each is time-consuming, and, once started, may require months or years to complete—perhaps commanding public funds long after the need for stimulating expenditures has disappeared. In spite of these disadvantages, many economists in strategic and powerful positions in government still center most of their long-run hopes for economic stability on these fiscal implements.

III

Taxonomically speaking, the following classification of the methods of attack to be employed in combating depression is not one that would be useful in a textbook presentation, if for no reason other than lack of completeness. Monetary policy is omitted because of its limitations and the exhaustive treatments concerning its utility which have already been published. Moreover, such miscellaneous approaches as staggering employment, providing national employment bureaus, improving international trade and monetary relations, and establishing cost accounting systems whereby depreciation is currently charged on only that part of capacity which is in current use, have been ignored; not because they are valueless, but simply because such tools are not as powerful in this matter as are the following:

Price Flexibility

Suggesting price flexibility as a measure for securing high levels of production, consumption, and employment involves one in all sorts of difficulty inasmuch as the proposal strikes directly across the cleavage separating "Classical" from "Keynesian" theory. Immediately one encounters the arguments that prices are tied to costs, costs are connected with incomes, and incomes determine purchasing power and aggregate demand which in turn are related to costs.

[1] All this statement implies is that changes could be made on such short notice if absolutely necessary. The disadvantages of frequent vacillations in such policy matters are, I think, obvious.

Wages, being both costs and sources of purchasing power, must either be maintained at high levels, other downward price adjustments to the contrary notwithstanding, or must be drastically cut in time of crisis in an endeavor to trim costs commensurate with some particular price decline.

The essence of the flexible wage problem seems to revolve around, first, the fact that inter-personal wage and salary income comparisons reveal a marked lack of what could be termed "inter-personal income synchronization," and, second, the continued payment of high wages during the early phases of a crisis and recession does not insure that these same wage payments *in toto* will reach the markets as purchasing power in any immediate time period.

Considering first the matter of income synchronization, one might posit that just as income increases do not affect all segments of the labor force in like degree, neither do income decreases. Nor do schemes for income stabilization affect all alike. To select a case in point, wage increases accruing to workers in manufacturing and construction industries in 1936 and early 1937 did not insure that other income recipients would receive the correspondingly necessary increase in income to permit the manufacturing and construction industries to pass on the higher wage costs *via* higher prices. The workers in manufacturing and construction who directly benefited (in the short-run) did not comprise the total market for the products they created; hence, the cost-income-demand-price circuit was not closed. Those persons with lagging incomes (white collar workers) or principally fixed incomes (pensioners, annuitants, and the retired with meager savings) were also expected to purchase the output of manufacturing and construction enterprises, but by mid-summer of 1937 it was quite evident that such expectations were destined for disappointment. Localized increases in income did not satisfy the requirements for a synchronized dissemination of purchasing power.

If markets are to be cleared in times of wage increases during prosperity or in periods of wage stabilization during crisis and recession, offsets must be found to compensate for the lack of synchronized movement among the relative shares accruing to other income recipients. These offsets may consist of transfer payments made by the government to those potential purchasers whose incomes have not been otherwise synchronized with wage and other income movements in special sectors of the economy, or may be partially attained by special tax remission adjustments in favor of those persons with unsynchronized incomes.[2]

Turning now to the second immediate difficulty of the flexible wage proposals, namely, the lack of a complete and immediate transfer of wage and salary income to purchasing power at the market, one must distinguish a recovery and prosperity wage plan from a wage stabilization device designed for recession.

The wages received by labor during a recovery tend to filter out into the markets rather quickly and completely. One apparent reason is that future price increases are expected; therefore, current wage income should be allocated to the present. Nevertheless, a decreasing marginal propensity to consume among

[2] Income taxes are perhaps the only levies which would lend themselves to such a scheme, if for no reason other than the administrative difficulties involved. Of course, even income taxes may lead to unstabilizing effects elsewhere in the system.

wage earners during a revival is not uncommon. One characteristic of the 1935–37 rally was that workers demonstrated a decreasing marginal propensity to consume—probably because they were repaying debts,[3] and because they had just lived through a period when a few dollars of savings meant the difference between minimum comfort and poverty. Thus, they decided to save something out of their current incomes for the somewhat uncertain future.

Such a procedure in itself would make it impossible to clear the market in the absence of credit expansion or narrowing profit margins. But consider now the instance of wage maintenance in time of recession. Beyond the fact that other members of the economy (for example, white collar workers) are not receiving a stabilized money income,[4] those with stabilized money incomes would tend to restrict their income disbursements in the face of a falling price level and rising real income. Again the cost-income-demand-price circuit would not be complete.

Moreover, the argument that a stabilized wage would preclude a price decline seems unwarranted. Even with transfer payments, tax remissions, elastic credit, and flexible profit margins, the inherent cumbersomeness of the administrative machinery necessary to implement such a program would result in timing discrepancies that would lead to price fluctuations in the absence of over-all governmental price control.

Few would maintain that wage flexibility or inflexibility should provide a complete cure; however, the fact that it would tend to dampen the amplitude of fluctuations around some postulated "norm" seems reason enough to consider procedures of this nature for control purposes.

Returning to the topic of price flexibility in general, let us examine the possibility of merciless price cutting in time of recession. When markets are glutted with goods which will not move at the prices currently listed on the price tags, the usual procedure in industry is to decrease production in large amount and cut prices as little as deemed necessary.[5] From the viewpoint of human welfare, production cuts are not desirable unless the released resources can be immediately transferred and absorbed in the production of some other good for which the "P-MC gap" is greater.

Merciless price cutting does not insure that production can be maintained, nor does it guarantee that all business firms will survive. The psychological climate pervading the economy in such times would be distressing.[6] Again the

[3] The creditors receiving such repayments did not necessarily hoard them, but as groups were either wealthier individuals with a relatively low marginal propensity to consumer, or banks with excess reserves already on hand.

[4] Pensioners and annuitants would customarily be receiving a constant money income, but would face a strong incentive to save until the *falling* price level had *fallen*.

[5] This operation, of course, contrasts sharply with that found in agriculture. In time of crisis, agriculturists typically increase output in an endeavor to gross the same amount per acre. This drives prices still lower. The post-1929 years furnish an excellent example of this technique. An authoritative article on agricultural production in these circumstances has been contributed by J. K. Galbraith and J. D. Black, "The Maintenance of Agricultural Production During Depression," *Journal of Political Economy*, June 1938, pp. 305–323.

[6] For comment regarding flexibility creating problems of uncertainty and enhanced economic instability, see A. G. Hart, "The Problem of 'Full Employment,' Facts, Issues, and Policies," *American Economic Review*, May 1946, p. 285.

question of whether or not future price cuts can be expected arises in the minds of potential buyers. Also, costs, including wages, would be trimmed which in turn would involve the aforementioned question of income synchronization.

Possibly the "best" solution in this regard would be selective price readjustments. The degree of oversupply and over-pricing would determine the severity of the measures invoked. If invoked on the level of self-regulation, very little could be expected in the way of a tangible consequence. Perhaps industry-wide enforcement devices would be superior, but the avoidance of a repetition of our N.I.R.A. experiences would need to be of primary concern.

One segment of the price flexibility controversy which has but recently been examined was suggested by Professor Pigou.[7] He has advanced the notion that a sufficiently low price level will provide full employment inasmuch as the value of people's real balances will increase as prices decline, thus furnishing an incentive for people to consume a larger portion of their current income. This increase in consumption and decrease in saving should make possible an equilibrium of savings and investment at a point consistent with the positive rate of interest assumed by the classical school.

One immediate problem encountered as prices fall to help bring about the Pigouvian solution (in addition to the fact that potential purchasers tend to hold off in anticipation of further price declines) is the narrowing of profit margins which is implicit.[8] Certainly short-run profits would be diminished. The deflation might be made worse in spite of the achievement of adjustment and flexibility.

Actually, acceptance of Professor Gordon's view that business men generally are interested in price protection and stability[9] would leave the Pigouvian solution resting on singularly uncertain and inadequate foundations. The most that could be expected from a policy of price-cost-income synchronization would, therefore, be a filling in of depression troughs and a nipping off of prosperity peaks, all the while granting the rigorous assumptions implicit in an undertaking of this nature.

Built-in-Flexibility

One definition of this heading is that

> ... built-in-flexibility means setting up arrangements such that events outside the control of policy which tend to weaken market demand for goods and services will themselves bring about events in the field of policy (such as reduction of government revenue or increase of government expenditure) tending to strengthen demand, while events outside the field of policy tending to strengthen demand will have inverse effects.[10]

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[7] The effects of price flexibility on the volume of employment have been investigated, with the aid of Pigou's analysis, by D. Patinkin, "Price Flexibility and Full Employment," *American Economic Review*, Sept. 1948, pp. 543–564.

[8] Unless one assumes that costs are scaled down proportionately and in proper tempo.

[9] R. A. Gordon, "Short-Period Price Determination in Theory and Practice," *American Economic Review*, June 1948, pp. 265–288.

[10] Hart, *op. cit.*, p. 284.

Examples would be automatic currency devices, government payments to veterans and farmers which increase during depression, unemployment payments, and individual income taxes and tax refunds.[11]

The expenditures made by government under this policy would not be of the public works type. Rather, the mid-1936 veterans' bonus would serve as an example if one grants the assumption that an anti-bonus position is politically untenable during severe depression.[12] As for agriculture, the manner in which current parity formulas are calculated practically assures increased aid to farmers in time of economic peril. Government payments *via* unemployment benefits will be made as prescribed under the Social Security Act, thus guaranteeing an increasing outflow of public funds as unemployment mounts.

Parenthetically, we may add that the Social Security program has taken out of the income stream more than it has contributed directly for benefits. Funds from the Social Security account were used before and during the war for the purchase of government debt; a future economic crisis could well see a much greater direct outflow of Social Security funds than has been customary, principally because we have not experienced a crucial test for insurance benefits since the program was instituted and operating as intended.[13]

Elastic tax and tax refund proposals perhaps constitute the most important parts of the plans for built-in flexibility. Taxes of a progressive nature work best in implementing these plans because of the ease with which vast sums can be withdrawn from or left in the income stream. This approach differs from the public expenditure method in that more or less income is ultimately left in the hands of income recipients by means of adjustments of the tax burden rather than by direct payments out of the public treasury.[14]

The recovery leverage obtainable from a flexible tax and budget policy, however, is not as great as that to be derived from a positive public expenditure policy, for at least two reasons.[15] First, the net increase in purchasing power available to consumers *via* tax relief and remission would be confined to some percentage of the relatively limited total tax burden, whereas in the instance of public outlays, anti-public debt sentiment, which appears to be rather impotent, would constitute the principal barrier to unlimited injections of buying

[11] *Loc. cit.*

[12] The 1936 bonus came during a strong rally, but only because it had been fought by the Administration and thereby postponed.

[13] True, Social Security began in 1936, before the 1937–38 debacle, but it was not in a position to act powerfully until several years had elapsed—perhaps in 1939.

[14] For an analysis of deficit finance by way of an increase in public expenditures *versus* a reduction of tax yields, see R. A. Musgrave, "Alternative Budget Policies for Full Employment," *American Economic Review*, June 1945, pp. 387–400. Cf. K. E. Poole, "Tax Remission as a Means of Influencing Cyclical Fluctuations," *Quarterly Journal of Economics*, Feb. 1939, pp. 261–274.

[15] On inflexibility of federal budget and difficulty of counter-cyclical public works, cf. G. Colm, "Fiscal Policy," *The New Economics*, p. 464. Also, J. H. Williams, "Deficit Spending," *American Economic Review*, Feb. 1941, pp. 52–66; and B. F. Haley, "The Federal Budget; Economic Consequences of Deficit Financing," *ibid.*, pp. 67–87.

power. Moreover, the added possibility of converting public debt into money by government purchases of bonds always exists.

Second, the larger part of taxes are not collected from the low income spending units[16] anyway; so a tax reduction or remission procedure would not significantly increase the buying power of the more than 40 per cent of our population who would be most desperately in need of public relief during a prolonged recession and depression. Their sole chance of reaping a benefit from tax relief would be through increased employment opportunities provided by the employer group who, as higher income recipients, would perhaps invest those funds which formerly were earmarked for tax payments. The economically significant environmental factors (e.g., inventory losses, expected future price decreases, security and real estate losses, fears of the political future, and many more) surrounding a recession as concomitant phenomena (in fact constituting part of the recession itself) would probably cast such a pall over the economic horizon that the relieved taxpaying employers would simply hold their windfall in anticipation of further disheartening economic performance.

The tendency among relieved consumers to spend tax savings would be greater but would also be curbed by anticipations of further deflation. The increased spending which did occur would lessen the severity of an inventory crisis but would not effectively promote acceleration to higher order goods except in the instance of full utilization of productive capacity—a generally unlikely assumption. Furthermore, if these funds had been collected by, or remained with, the government they would most probably have contributed similarly toward economic revival.

In totality, nevertheless, the utilization of farm, veteran, tax, and unemployment benefits should assure a higher level of short-period employment, production, and consumption than might otherwise be attained in their absence.

Public Expenditures

To the economic conservative, outlays of public funds for work projects and relief of unemployment seem uncommonly difficult to reconcile with the older "morning-after" theories of prosperity and depression as advanced by the "orthodox" economists of both the past and present. Still, many competent men agree that long-period depression is intolerable and inconsistent in our social structure,[17] and that

> It is more than doubtful, whether the political and social structure of the modern industrial state is fit to bear the burden arising from long-lasting depressions and large-scale unemployment.[18]

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[16] For illustrative purposes, "low" might be defined as a 1947 spending unit income of less than 2,400 dollars.

[17] P. J. Strayer, "Public Expenditure Policy," *American Economic Review*, March 1949, p. 370.

[18] W. Fellner, "Pump-Priming as a Means of Fiscal Policy," *American Economic Review*, Suppl., Pt. 2, March 1939, p. 221.

The history of public works expenditures designed to preserve the modern industrial structure has been written by C. J. Anderson, "The Development of the Pump-Priming Theory," *Journal of Political Economy*, June 1944, pp. 144–159.

Economic arguments can no longer realistically center on what "ought" to be done to cure a long-lasting economic disturbance. To tell the unemployed that they must wait without recourse until the price-cost structure has been re-aligned and inventories have been depleted is most likely impossible within the framework of the societal and institutional structure of our present economy.

Widespread relief projects probably must be instituted to combat future economic upheavals, and they should not be too closely patterned along the lines of the 1933–37 procedures. The greatest leverage coefficient possible should be attained from every injection of purchasing power made—a goal we did not achieve during the first four years of the New Deal. As Professor Williams notes,

> There is no evidence that the Administration, as distinct from some persons within it and some economists offering advice from the outside, ever had a conscious interest in fiscal policy as an instrument of recovery prior to the new depression in 1938. Government spending was primarily for relief and was regarded mainly as the unavoidable accompaniment of unemployment until recovery could be achieved by other means. I have been inclined to agree with those who hold that relief expenditures do not reach down far enough into the economic process to afford much leverage.[19]

Of course, none of the works projects or relief expenditures attack what has been termed the "specific"[20] or "underlying maladjustments"[21] which are truly causal, i.e., overexpansion of a particular industry, disparities between industry and agriculture, or excessive inventory accumulations. Professor Metzler thinks that "The ultimate cause of cyclical fluctuations must . . . be sought . . . in the causes of a fluctuating propensity to invest."[22]

[19] J. H. Williams, "The Implications of Fiscal Policy For Monetary Policy and the Banking System," *American Economic Review*, Suppl., Pt. 2, March 1942, p. 239.

[20] "Public spending is the easiest of all recovery methods, and therein lies its danger. If it is carried too far we neglect to attack those *specific maladjustments* [Italics mine] without the removal of which we cannot attain a workable cost-price structure, and therefore we fail to achieve the otherwise available flow of private investment." Cf. A. H. Hansen, "Economic Progress and Declining Population Growth," *American Economic Review*, March 1939, p. 14.

[21] Slichter declares that " . . . expenditures on public works may be of temporary help in sustaining the demand for agricultural products and thus in cushioning the effects of the depression on agriculture, but they will not correct the *underlying maladjustments* [Italics mine]. As soon as the public credit is exhausted or the willingness of the public to support the public works program ceases, the original maladjustment between manufacturing and agriculture will again make itself felt.

"Public works programs, therefore must be regarded as essentially palliatives rather than correctives." Cf. S. H. Slichter, "The Economics of Public Works," *American Economic Review*, Suppl., March 1934, pp. 178–179. Public works are not a good solution to the problem of unemployment, according to Yntema. He writes: ". . . let . . . surplus public works serve as monuments to our lack of imagination and the low level of our public morals!" Cf. T. O. Yntema, "Full Employment in a Private Enterprise System," *American Economic Review*, Suppl., Pt. 2, March 1944, p. 113.

[22] L. A. Metzler, "Business Cycles and the Modern Theory of Employment," *American Economic Review*, June 1946, p. 291. Some complicating issues in estimating the causes of fluctuating propensities to invest are indirectly described by R. A. Lester, "Shortcomings of Marginal Analysis for Wage-Employment Problems," *American Economic Review*, March

Withal, these suggestions indicate a rather large and sturdy foundation of agreement. The basic disproportions must be attacked, but concomitantly with some combination of W. Röpke's *symptomatic measures*. For Yntema, "The major objective of fiscal policy should be to counteract tendencies toward a deflationary decline in demand or toward an inflationary price-wage increase."[23]

With regard to alternatives, undoubtedly some method of allocating social priorities among the various forms of public spending should be worked out.[24] A case in point concerns the use of public expenditures plus taxation as an alternative to loan-financed expenditure. If the taxation did not encroach upon consumption, the advantage should actually lie with taxes inasmuch as service charges on debt could be avoided, and this perhaps will always constitute an advantage in an economy with a marked private enterprise bias. Unfortunately taxes do tend to encroach upon consumption,[25] which leaves indeterminate what might otherwise be an obvious choice.

Professor Samuelson avers that direct consumption expenditure is just as good as public works and does not believe that employment will be larger if the government spends money on one industry rather than on several.[26]

1946, pp. 72–75. For a penetrating critique of Professor Lester's hypothesis, see F. Machlup, "Marginal Analysis and Empirical Research," *American Economic Review*, Sept. 1946, pp. 519–553.

[23] *Op. cit.*, p. 111. Beardsley Ruml says that we may accomplish this [Yntema's objective] in part by balancing "'. . . the budget at an agreed level of high employment' and having set our tax rates to accomplish this, to 'leave them alone, except as there are major changes in national policy. When employment goes beyond an agreed level, or if, with high employment, we have a boom in prices, let us hold the surplus or use it to reduce the national debt, not as an excuse for further tax reduction.' " *Loc. cit.*

For a most unusual treatment of employment and the functions of government, see A. P. Lerner, *The Economics of Control*, Chaps. 21–25, pp. 259–345, and especially Chap. 24 on "Functional Finance," pp. 302–322. Cf. A. Sweezy, "The Government's Responsibility for Full Employment," *American Economic Review*, Suppl., Pt. 2, March 1943 pp. 19–36; and A. A. Berle, Jr., "Government Function in a Stabilized National Economy," *ibid.*, pp. 27–38. An early treatment of the economic problems involved in attempting to regulate business conditions by public works has been contributed by G. Bielschowsky, "Business Fluctuations and Public Works," *Quarterly Journal of Economics*, Feb. 1930, pp. 286–319. In addition, see the early round table discussion, "Public Works and Unemployment," *American Economic Review*, Suppl., March 1930, pp. 15–29.

[24] Howenstine writes that the alternatives are public works, aids to consumption, and the subsidy of private employment. He adds that the work habits and skills of the workers should also be improved. Cf. E. J. Howenstine, Jr., "Some Principles of Compensatory Action," *Quarterly Journal of Economics*, Nov. 1946, pp. 167–168. Also, see J. M. Clark, "An Appraisal of the Workability of Compensatory Devices," *American Economic Review*, Suppl., Pt. 2, March 1939, pp. 194–208; and C. J. Anderson, "The Compensatory Theory of Public Works Expenditure," *Journal of Political Economy*, Sept. 1945, pp. 258–274.

[25] Professor Hansen agrees that it is scarcely possible that taxes would not so encroach. Cf. A. H. Hansen, "Three Methods of Expansion Through Fiscal Policy," *American Economic Review*, June 1945, p. 386. Dr. Hansen's "three methods are: (1) tax reduction with low outlay and a large deficit, (2) tax financing with large outlay and no deficit, and (3) loan financing involving medium outlay and a medium deficit." *Ibid.*, pp. 382–387.

[26] P. A. Samuelson, "Fiscal Policy and Income Determination," *Quarterly Journal of Economics*, Aug. 1942, pp. 575–605. Also, see the fine article on compensatory spending and

The most apparent advantage to be derived from undertaking consumption-promoting expenditures instead of public works is that the confidence of the individual investor is ineluctably shaken by government investment procedures. This was true during the 1933–37 era when anti-business statements emanating from Washington resulted in a retrenchment of much proposed private investment at the same time that the Administration was attempting to promote a sizable *net* increase in the total volume of investment.[27]

The direction taken in the spending of national income is of prime importance for the maintenance of national income growth. As E. H. Stern has written,

> The assertions often made that the State is able to maintain income by spending the people's savings on whatever it likes and that "the necessary offsetting of savings to maintain employment can take any form of spending if spending is that of the State," are obviously fallacious.[28]

Expenditures should be developed which are not dependent upon profit prospects and dovetailed with private expenditures which do depend upon expected profits. Spending which is determined by the profit outlook is almost certain to fluctuate[29] over any economically discrete time period. Constant

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the "money illusion" by L. A. Hahn, "Compensating Reactions to Compensatory Spending," *American Economic Review*, March 1945, pp. 28–39.

[27] I have collected an imposing list of anti-business dicta by President Roosevelt, Assistant Attorney General Robert H. Jackson, and Secretary of Interior Ickes. These statements, in addition to the legislation, bills, and proposals forthcoming from Washington, chilled the hopes of many of our industrial, business, and political leaders. I have collected statements by Clarence Francis (President of General Foods Corporation), Senator A. H. Vandenburg, Henry Ford, Frances E. Frothingham (President of the Investment Bankers Association of America), Alfred P. Sloan, Tom M. Girdler (Chairman of the Republic Steel Corporation), Colonel Leonard P. Ayres, and William S. Knudsen (President of General Motors Corporation), to the effect that a psychology of fear and uncertainty brought on by government interference permeated the economic community in those critical years.

Professor Lange would not agree with this theory. He declares: ". . . events since 1929 in the United States . . . show that private capitalism suffers from a lack of sufficient inducements to invest which prevent it from securing full employment of the existing productive resources. The argument is frequently raised that this is due to political interference which discourages private investment. In answer to this . . . the depression came at a time when . . . no appreciable amount of such interference was exercised and that at present the level of economic activity is maintained in most countries by public investment. To blame political interference and public investment for the failure of private capitalists to invest is to mistake the effect for the cause." Cf. O. Lange, "Is the American Economy Contracting?," *American Economic Review*, Sept. 1939, p. 513.

[28] E. H. Stern, "Capital Requirements in Progressive Economies," *Economica*, Aug. 1945, p. 170. For a discussion of government competition and private investment in the utility field, see B. W. Lewis, "The Government as Competitor: The Effect on Private Investment," *American Economic Review*, June 1939, pp. 286–298. On anti-investment policies of the New Deal, see C. O. Hardy, "Fiscal Policy and the National Income," *American Economic Review*, March 1942, pp. 108–110. Myrdal writes: "One of the obvious shortcomings of deficit spending during the last depression was, however, the adverse reaction of business confidence, which has too often restricted or even possibly reversed its stimulating effects." Cf. G. Myrdal, "Fiscal Policy in the Business Cycle," *American Economic Review*, Suppl., Pt. 2, March 1939, p. 187.

[29] S. H. Slichter, *op. cit.*, p. 175.

vigilance is necessary to insure against contraction in the private sector. Professor Slichter believes that such a shrinkage might occur because (1) businessmen may regard the economic situation as artificial, (2) increasing debt may produce fears of inflation, or (3) alterations in the price structure may have produced extensive price pegging.[30]

Moreover, if entrepreneurial and investor confidence are increased by appropriate action, liquidity preference and the rate of interest would tend to decrease. Investment and employment would be encouraged by this decrease in the interest rate relative to the marginal efficiency of capital. The marginal efficiency of capital should be increased by the more favorable expectations. Generally speaking, profit margins before the war were not too low if only greater incentives for business could have been provided by reducing uncertainty and unpleasantness between business and both government and labor.[31]

If, as Professor Strayer thinks possible, the government has not yet exerted much influence over economic affairs,[32] then a proper psychological campaign must be the essence of future public expenditure policy. Unprecedented wizardry must be demonstrated in this regard. The function of government in a "dual" economy will have to be explained to the private enterpriser and investor by means of newspapers, periodicals, radio, and public speeches. An enormous propaganda campaign will need to be launched in order to avoid the costly errors of 1933–37. Our vast censor group (columnists, news commentators and analysts, educators, publishers, clergymen, etc.) will ultimately "determine" the direction of public opinion and thereby profoundly affect the course of economic affairs.

If the private sector of the structure "knows" and can be convinced that the government is dedicated to (and can bring about alone if necessary) the maintenance of a quasiboom in the levels of production, consumption and employment, private enterprise might react in such a manner as to make the quasi-boom possible. This would obviate the necessity for any vast public expenditures except in the instance of powerful disturbing forces acting from the outside.[33]

[30] *Op. cit.*, pp. 179–180.

[31] T. O. Yntema, *op. cit.*, p. 116. Professor Shackle has published an illuminating article on expectations, employment, and investment. The human "expecting faculty" is made the essence of entrepreneurial motivation. Cf. G. L. S. Shackle, "Expectations and Employment," *Economic Journal*, Sept. 1939, pp. 442–452. A critique of certain quantitative treatments of economic activity and related governmental policy has been written by A. G. Hart," 'Model-Building' and Fiscal Policy," *American Economic Review*, Sept. 1945, pp. 531–558.

[32] Strayer's reason for so thinking is that as government expenditures (absolute and per capita) have been increasing, so has total national out put. If in the future total national output declines, government influence over an ever-widening area of the economy will disappar. Cf. P. J. Strayer, *op. cit.*, p. 389.

[33] Professor Friedman has written: "*If the business world were sufficiently confident of the ability of the government to achieve the goal* [damped economic fluctuations], it would have a strong incentive to behave in such a way as greatly to simplify the government's task." Cf. M. Friedman, "A Monetary and Fiscal Framework for Economic Stability," *American Economic Review*, June 1948, p. 258.

The result would tend to be a *persistent* stabilization program, but with *sporadic* injections of public funds into the income stream being made by way of works projects. Most certainly this would be more reassuring to private enterprise than sporadic and haphazard stabilization techniques administered in different degrees and times depending upon which political party happened to be in power. A revision of relations between federal, state, and local levels of government is necessary to achieve the objective of a coordinated and consistent public works program on a national scale.[34]

Once the government does make a contribution to the income stream, the *price effect* will probably be greater than in the case of a corresponding private contribution, mainly because most government projects are time-consuming ones from which there would be no relatively immediate outflow of consumers' goods. Thus, additions to the income stream resulting from government road building, slum clearance, hospital development, etc., would be concentrated on a relatively small additional output of consumers' goods—at least in the short-run. Price increases could be expected—usually a reassuring signal to the private enterpriser. It would give him greater profits—or at least minimize his losses—which correspondingly would tend to induce him to invest (at least invest in inventories).

Parenthetically, it is nearly impossible to overstate the importance of past profits as a force in determining current and future investment. All concepts of marginal efficiency of capital should give due weight to this matter of the present being so closely associated with the past. Veblen's overcapitalization theory of the cycle emphasizes this continuity between profits and private investment.

Private investment should be maintained at the highest level consistent with a proper balance of costs and prices. If bargains are available, and the past has been profitable, private investors will assume their responsibilities. If, however, institutional barriers (e.g., monopoly) are present, the *government's* responsibilities are increased.[35] Monopolistic rigidities make possible the simultaneous evils of unemployment and inflation. This indictment extends to barriers established

[34] Professor Strayer has said this. Cf. P. J. Strayer, *op. cit.*, pp. 393–394. See also the abstract of a round table discussion, "Co-ordination of Federal, State, and Local Fiscal Systems," *American Economic Review*, Suppl., Pt. 2, March 1942, pp. 214–215.

[35] Investment opportunity and monopoly are treated by J. A. Schumpeter, *Capitalism, Socialism, and Democracy*, Pt. II, pp. 61–163. For a partial criticism of Schumpeter's thesis, see G. H. Hildebrand, Jr., "Monopolization and the Decline of Investment Opportunity," *American Economic Review*, Sept. 1943, pp. 591–601. Neither does Abramovitz agree with Schumpeter. Cf. M. Abramovitz, "Savings and Investment: Profit vs. Prosperity?," *American Economic Review*, Suppl., Pt. 2, June 1942, pp. 53–88.

S. Weintraub indicates that monopoly pricing does tend to promote primary and secondary unemployment. Cf. S. Weintraub, "Monopoly Pricing and Unemployment," *Quarterly Journal of Economics*, Nov. 1946, pp. 108–124. Professor Ellis advises that we remove the institutional obstacles (i.e., rigid prices, monopoly restriction of output, income inequality, high levels of interest, tariffs, taxes on enterprise, etc.) to investment. To him, the psychological and technical obstacles are much less important. Cf. H. S. Ellis, "Monetary Policy and Investment," *American Economic Review*, Suppl., Pt. 2, March 1940, pp. 27–38.

by both business and labor[36] as well as to tariffs, quotas, and other international impediments.[37]

Recent additions to the funds of the Anti-Trust Division of the Department of Justice should make possible a more rigorous enforcement of our anti-trust laws as well as renewed attacks upon the entire problem of price rigidities. Further, extension of reciprocal tariff provisions plus membership in the International Trade Organization will perhaps aid in the removal of many especially restrictive trade procedures.

The timing of the hardest blows to be struck for more competition and freer trade should be arranged in conjunction with the timing of public expenditures,[38] whether of the *persistent* or *sporadic* type. This timing is complicated by the fact that periods of economic misfortune are usually attended by renewed calls for higher tariffs and less severe competition. Again, public educational techniques must be utilized to explain the affinity of the two approaches.

IV

Beneath all arguments concerning appropriate public policy in time of economic distress is the question of adequate investment outlets for the savings of a society which appears to some to be inclined toward over-saving. Not until we have resolved this puzzle can we be certain that a specific method of attacking depression is to be preferred over a host of alternatives.[39]

Moreover, the short and long-run effects of government action must be carefully weighed. Stimulating business by government interference encounters the difficulty that sometimes an addition to today's business is not an addition to total business. Rather, it is a debit against future activity and, therefore, liable to lead to difficulty in the long-period.[40]

[36] On wage policy and the volume of investment, see A. Sweezy, "Wages and Investment," *Journal of Political Economy*, Feb. 1942, pp. 117–129.

[37] For a discussion as to whether or not foreign investment is a "marginal factor" with respect to domestic full employment, read K. K. Kurihara, "Foreign Investment and Full Employment," *Journal of Political Economy*, Oct. 1947, pp. 459–464. An article on the interdependence of international trade and full employment has been contributed by F. C. Benham, "Full Employment and International Trade," *Economica*, Aug. 1946, pp. 159–168.

[38] Professor Bratt has called for more study of the timing question. Cf. E. C. Bratt, "Timing, Pump-Priming Expenditures," *American Economic Review*, March 1941, pp. 97–98. In another contribution, Dr. Samuelson sides with Harrod against Slichter, implying that early spending may check a downward spiral. Cf. P. A. Samuelson, "The Theory of Pump-Priming Reëxamined," *American Economic Review*, Sept. 1940, pp. 495–496.

Timing is complicated by taxpayers' demands for projects (e.g. roads) now, rather than at some economically "appropriate" time in the future. Arguments that the social cost of hiring unemployed factors is zero (Strayer, *op. cit.*, p. 390) do not provide succor for the public servant who is attempting to prime the pump according to professional strategy.

[39] Professor Knight has already arrived at his conclusion. He maintains that to exclude new knowledge as incapable of providing profitable investment outlets, we must assume a ". . . condition of omniscience that no advance in knowledge would be worth its cost in utilitarian terms." Cf. F. H. Knight, "Diminishing Returns from Investment," *Journal of Political Economy*, March 1944, p. 47.

[40] M. A. Copeland, "How Achieve Full and Stable Employment," *American Economic Review*, Suppl., Pt. 2, March 1944, p. 144.

An added strand in this Gordian Knot is that, just as one can acquire a broken leg in a number of ways, so can an economic system suffer an economic mishap from various sources. This complicates the strategy for recovery. N. Kaldor has written that full employment activity may be terminated by: (1) credit restriction as rising interest rates check investment, (2) excess investment as rising interest rates stop cumulative inflation, (3) excess saving as demand for consumption goods fails to increase adequately, and (4) redundancy of equipment because of a labor scarcity. He adds that monetary policy will remove number 1; tax policy removes numbers 2 and 3; and a reorganization of the distribution of resources among different industries would provide a solution to number 4.[41]

Histories of past depressions lend support to this supposition of multiple causation.[42] Some authorities admit that too much time and energy has been allocated to favorite schemes for spending public funds,[43] without an adequate theory of causation. The result has been an incongruous, amorphous mass of government activity superimposed upon the economically prostrate private sector of the community. Sometimes, by pure chance in too many instances, the recovery-promoting forces of both private and public enterprise were functioning in unison; at other times, and as one would expect in the absence of a coordinated policy, the government and private segments were promoting mutually incompatible measures for the relief of economic distress.[44] We should do everything possible to construct a realistic program of public and private cooperation for the future in order to eliminate at least a reasonable percentage of the guess work which has characterized our trade cycle policy of the past.

We should probably emphasize fiscal rather than monetary measures, as our experience of the "twenties" and "thirties" indicates.

Furthermore, from a policy viewpoint wages as purchasing power are perhaps more important than wages as cost; hence, wage payments must be synchronized with other functional shares—plus transfer payments—to supplement the incomes of those persons who otherwise would not receive sums large enough to insure a reasonably high level of effective demand.

Merciless price cutting would not be desirable—the psychological climate pervading the economy in such times would tend to be too distressing for the majority to bear. And, even Professor Pigou's price postulate is not as yet sufficiently delineated to provide us with any well-defined policy convictions.

Similarly, "built-in-flexibility" proposals do not seem to offer the degree of assurance provided by programs calling for positive public expenditures in

[41] N. Kaldor, "Stability and Full Employment," *Economic Journal*. Dec. 1938, p. 657.

[42] Cf. Two excellent summaries of the 1929–30 economic disturbance: C. Synder, "The World-Wide Depression of 1930," *American Economic Review*, March 1931, pp. 172–178, and J. A. Schumpeter, "The Present World Depression: A Tentative Diagnosis," *ibid.*, pp. 179–182. Also note the round table discussion which follows Schumpeter's diagnosis.

[43] S. H. Slichter argues: "The time is overripe to rescue employment theory from its narrow preoccupation with spending and to include in it a consideration of the conditions of supply and of the effect of changes in demand upon reservation prices." Cf. S. H. Slichter, "Wage-Price Policy and Employment," *American Economic Review*, May 1946, p. 318.

[44] For example, the Hoover administration in 1930 was simultaneously committeed to high tariffs, aid to agriculture, and the removal of unemployment.

periods of distress. Promotion of investment is probably the most promising approach; nevertheless, we should heed Professor Samuelson's assertion that direct consumption expenditures are just as helpful as public works in solving the problems we are concerned with here.

Perhaps conviction as to the wisdom of government supplementation of private investment would induce the private sector of the economy to invest in a volume sufficient to employ practically all available agents of production over the long period.

Finally, whatever the sacrifices involved we are justified in expecting, because of an increasing public interest in our educational system, a level of wisdom which will permit to an ample degree the attainment of the objectives outlined herein.

TIMBER SUPPLIES FOR INDUSTRY IN MISSISSIPPI

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A resurvey of the forests of Mississippi, made in 1946–48[1] (the first survey was made in 1932–35), indicates a deteriorating forest resource. It, thereby, raises a serious question about the adequacy of the forest to meet the raw material needs of Mississippi's important timber-products industries. The following discussion points out the magnitude of the forest-resource decline, the importance of the forest industry at stake, how industry has adapted utilization practices to timber output, the status of forest-management practice, and the outlook in regard to timber supply for the major timber-products industries.

I

Mississippi's forest land area of 16.5 million acres (out of a total land area of 30.3 million acres) has increased 2 per cent in a period of 14 years, but in most other respects the forest resource has declined.

The sawlog volume[2] of 29.3 billion board feet is 24 per cent less than 14 years ago—29 per cent less in softwood[3] species; 20 per cent less in hardwood[4] species. North Mississippi, where the timber was already heavily depleted at the time of the first survey, lost 40 per cent of its sawlog volume. In central Mississippi, sawlog volume dropped 25 per cent; in the Delta, 29 per cent. Only in south Mississippi, where half the forest is under at least fair management and where the forest had been newly and heavily cut over in 1932–35, has there been a net increase in sawlog volume: a drop of 5 per cent in hardwood was overbalanced by an increase of 8 per cent in softwood species.

Total growing stock[5] amounts to 7.7 billion cubic feet. With one-third of the

[1] The nationwide Forest Survey, a continuing project of the Forest Service, U. S. Department of Agriculture, was authorized initially by the Congress of the United States through the McSweeney-McNary Forest Research Act of May 22, 1928. Its purpose—to determine the forest situation nationally—requires a painstaking inventory and analysis state by state. Mississsippi, one of the first states to be surveyed in the post-World War II period, is one of only three states (South Carolina and Florida are the others) for which an earlier survey is also available against which to judge the trends in the forest resource. For details of the forest situation in Mississippi, see *Forest Statistics for Mississippi*, Forest Survey Release 59, Southern Forest Experiment Station, New Orleans, 1949.

[2] Sawlog volume is the board-foot volume in live merchantable soft woods 9.0 inches or larger in d.b.h. (diameter breast high), and hardwoods 11.0 inches or larger in d.b.h.

[3] The softwood sawlog volume of 12.4 billion board feet is distributed among principal species as follows: loblolly pine, 46 per cent; shortleaf pine, 22 per cent; longleaf pine, 12 per cent; slash pine, 9 per cent; cypress, 6 per cent; and other pines and cedar, 5 per cent.

[4] The hardwood sawlog volume of 16.9 billion board feet is distributed among principal species as follows: red oaks, 25 per cent; white oaks, 15 per cent; sweetgum, 18 per cent; black and tupelo gums, 7 per cent; hickories, 10 per cent; and a large variety of other hardwoods, 25 per cent.

[5] Total growing stock volume is the cubic volume of sound, usable wood in sawlog portions of sawlog trees, and in upper-stems of softwood sawlog trees and entire stems of cordwood trees to a minimum top diameter of 4 inches inside bark.

total growing stock in cordwood trees[6]—where growth is most vigorous and industrial use lightest—the declines in total growing stock volume have been less sharp than for sawlog growing stock. For the state as a whole, the decline in softwood growing stock has been 20 per cent; hardwood total volume has not changed.

Pine is usually preferred to hardwood by wood users in upland areas, but hardwoods have replaced pine as the dominant tree on 2.2 million acres where 14 years ago pine was dominant.

The result of the creaming of forests in Mississippi logging operations is that two-thirds of the hardwood saw timber is in grade 3 logs—small logs, logs which will yield less than 40 per cent of their volume in No. 1 common and better grades of lumber, and logs whose usefulness is limited to ties and timbers. As for softwood, 62 per cent of the sawlog volume is in grade 3 trees (trees with less than 12 feet of clear bole). In addition to the downgrading of growing stock, there has been an increase of nearly one-fifth in the volume of cull trees[7] since the first survey. Such trees—worthless for anything but fuel wood—now take up a fourth of the entire growing space.

Mississippi's timber is also smaller than it used to be. Among softwoods, 6-inch trees increased in numbers since the first survey and 8-inch trees about held their own; but the number of trees in all larger size classes declined. In 26-inch and larger trees, the decline amounted to two-thirds. Among hardwoods the story in general is the same, except that the small trees have increased in numbers up through the 14-inch class, and the declines in larger tree sizes have been less severe than for softwoods. Now nearly a third of Mississippi's growing stock is in trees of less than sawlog size.

II

In spite of the declining forest resource, the total output of timber products in Mississippi has changed little in the last 30 years. Forest industry remains as one of the major segments of the state's economy.

Mississippi has approximately 2,000 active sawmills, 48 cooperage plants, 27 veneer plants, 6 pulp mills, and some 75 mills engaged in other types of wood manufacture. The 1946 cubic volume of all raw timber products was 473 million cubic feet—239 million in hardwood, 234 million in softwood. Sawlogs and pulpwood are the main softwood products (Table 1); poles and piling, and fuel wood, are a poor third and fourth. Among hardwood products, fuel wood is just behind sawlogs in regard to volume, although it is far behind in value. Pulpwood, in third place, comprises only 8 per cent of the hardwood output.

The 1946 value of raw timber products both for domestic use and for sale (logs, bolts, and other raw timber products including naval stores) was $122 million. Further manufacture of these products within the state added $130

[6] Cordwood trees are well formed trees smaller than sawlog trees but at least 5 inches in d.b.h.

[7] Live trees 5.0 inches or larger in d.b.h., which, because of decay or sound defect, fail to meet the specifications for cordwood or sawlog trees.

million in value. In terms of income payments to the 2,100,000 people of Mississippi, this value of $252 million is reduced to an estimated $202 million,[8] 23 per cent of the total income in the state from all sources except government (Table 2). Timber products thus rank as a source of income not far behind agriculture and well ahead of all other manufactures, minerals, fisheries, and miscellaneous forms of income.

TABLE 1

Distribution of Volume of Output by Raw Timber Product and Species Group, 1946

PRODUCT	SOFTWOOD	HARDWOOD	ALL SPECIES
		Per Cent	
Sawlogs	54	37	46
Pulpwood	31	8	19
Fuel wood	5	34	19
Poles and piling	6	0	3
Cooperage bolts	(*)	6	3
Veneer logs	1	5	3
All other	3	10	7
Total	100	100	100

* Negligible.

TABLE 2

Income Payments in Mississippi from All Sources Except Government, 1946

SOURCE*	MILLION DOLLARS	PER CENT
Trades and services	288	33
Agriculture	270	30
Timber products	202	23
Other manufactures and miscellaneous sources	128	14
Total	888	100

* Total income payments and income payments from trades and services and agriculture from *Survey of Current Business*, U. S. Bureau Foreign and Domestic Commerce, Aug. 1947. Income from timber products derived from calculated value of raw timber products and value added by manufacture. Income from other manufactures and miscellaneous sources is a residual between total income payments and all other items in table.

Mississippi's forest industry provides about 68,000 man-years of employment annually—35,000 in cutting products in the woods and hauling them to mills; and 33,000 in manufacture (Table 3). The number of workers cannot be estimated accurately since much of the employment is part-time. Farmers commonly supplement their income with seasonal woods labor.

[8] An estimated $22 million worth of fuel wood and other timber products is used on the farm but is never sold. In addition, an estimated $28 million is credited to nontimber sources of income or as a net flow to people outside the state.

III

Since raw timber is bulky, heavy, and expensive to haul, most plants using logs or bolts as their chief raw material are close to their timber supply. The consequence is that wood-using plants are scattered throughout Mississippi.

The average sawmill gets 74 per cent of its timber in the same county in which the mill is located. The average cooperage plant gets 61 per cent of its timber within the county. Plants manufacturing veneer get 44 per cent of their timber in their home counties, and miscellaneous plants get 56 per cent. Pulp mills draw timber from a wider territory than other primary wood users. Yet, while the value of the product is great enough to absorb a larger transportation cost than most timber products can, Mississippi's pulp mills obtain 55 per cent of their wood within a radius of 50 miles, only 3 per cent from beyond 100 miles.

TABLE 3

Employment in Mississippi's Forest Industry, 1946

TYPE OF INDUSTRY	WOODS	MILL	TOTAL
	Thousand Man-Years		
Lumber and lumber products	12.1	20.9	33.0
Pulp and paper products	6.2	4.7	10.9
Veneer, plywood, and cooperage	2.4	4.6	7.0
Naval Stores	2.1	1.7	3.8
Wood preserving	0	1.0	1.0
Poles and piling	1.9	0	1.9
Hewn ties	1.7	0	1.7
Fuel wood and other farm use	8.8	0	8.8
Total	35.2	32.9	68.1

The larger the plant and the more specialized its wood requirements in regard to tree size, species, and quality, the larger its drawing territory is likely to be. Among sawmills, particularly, the variation is pronounced. Small portable sawmills are highly mobile, taking advantage of the economies of transporting lumber rather than logs. Large mills are stationary, and as adjacent stands of timber are cut out, they must reach in widening circles for new supplies.

Wood-using industries in Mississippi must rely for the most part on timber production within the state. There is no evidence that drain on local sources of supply can be eased to permit forest recovery while adjoining states are drawn on more heavily. In fact, the contrary is true. Although relatively little timber for sawlog-size products crosses into or out of the state (some 40 million board feet were imported in 1946 as compared with 30 million feet of exports), pulp mills outside the state draw heavily on Mississippi's timber supply. In 1946, 702,700 cords of pulpwood were exported to neighboring states, particularly Louisiana; but imports, mainly from Arkansas, amounted to only 42,100 cords. The net export of 660,600 cords was substantially more wood than was used by all the pulp mills located in the state. It amounted to 10 per cent of Mississippi's total output of wood products.

IV

In view of the large declines in Mississippi's forest resource, how has it been possible to sustain the total output of timber products at a fairly high level? The answer, ignoring for the present changes in forest land management, lies mainly in these four aspects of timber utilization: the overcutting of the forest resource; industrial adjustments leading to the use of smaller and poorer quality timber and less desired species for individual products; the increase in output of less exacting products; and the more complete utilization of softwood timber in logging for pulpwood than in logging for sawlogs.

Overcutting: The reduction in total timber growing stock alone between the two forest surveys was enough to provide a tenth of the total output of timber products over the same period. In terms of sawlog volume, the decline in inventory was equal to a fourth of the softwood sawlog production and three-tenths of the hardwood sawlog production during these 14 years.

Use of inferior timber: One of the most significant industrial adjustments leading to the use of smaller trees, poorer quality trees, and less desired species has come through the replacement of large sawmills with small mills manufacturing less than 3 million board feet of lumber annually. The small mill operators, who now produce six-tenths of the total lumber output, have had some advantages over other lumbermen in their greater mobility, lower costs of operation, and ability to handle smaller and lower grade timber economically. These advantages have been a powerful influence in intensifying the mismanagement of Mississippi's second-growth forests, but, at the same time, they have helped to sustain lumber manufacture far beyond what otherwise would have been possible.

There are other strong indications that the downward trends in the forest resource have forced a general shifting of production to less desired tree species. One is the increase in the cutting of hardwood for lumber from a fifth of the total lumber manufactured in 1924 to nearly half in 1944. Although 1944 marked the peak of the wartime expansion in hardwood lumber use in the state, much of the increase was the result of the depletion of pine growing stock. The stand of hardwood saw timber was one-third greater than softwood, and quality was of less concern than at any time before or after; hardwood could, therefore, be drawn on to help meet the intense wartime demand. Again, one can point to the considerable expansion in the use of hardwood for pulpwood; by 1946, hardwood pulpwood production in Mississippi reached 254,000 cords, 21 per cent of total pulpwood output. Much of this expansion represents hardwood use for specialized pulp products, but some is the type of changing species utilization which has been stimulated by the abundance of small hardwoods and declines in the generally preferred pine resource.

Shift to less exacting products: By far the most prominent product shift is the replacement of softwood sawlog production with softwood pulpwood production. After softwood lumber output plunged from 2.2 billion board feet in 1929 to a low of 0.4 billion in 1932, it climbed out of the depression very slowly; the an-

nual output in the period 1939–46 averaged less than half that of the 1920's.[9] In contrast, pulpwood cutting in Mississippi has increased spectacularly. From less than 300,000 standard cords (128 cubic feet per cord) in 1936, output jumped to 1,434,000 cords in 1948—the average increase was nearly 100,000 cords a year. A remarkable feature of this upward trend was its steady persistence through major changes in the economy from peace to war to peace again. The increase in pulpwood output was enough to compensate, in terms of solid volume, for the large decline in softwood lumber manufacture from the average of the 1920's.

There are many explanations of the large increase in pulpwood production while softwood lumber manufacture declined, but one of the big factors is undoubtedly the available volume of timber of suitable size. Sawlog cutting requires larger trees. Necessity has forced softwood sawlog loggers to cut ever smaller timber; yet nearly three-fourths of the cut is still in trees at least 14 inches in d.b.h. In contrast, the pulpwood industry prefers small trees. Virtually all the pulpwood cut comes from trees 6 to 12 inches in d.b.h., a size range in which softwood timber has been sufficiently abundant to support the rise in pulpwood production.

Cooperage output has changed from tight cooperage, which depends chiefly on good quality white oak, to slack cooperage, which uses a wider variety of tree species, sizes, and grades. One product is not intended to be a substitute in use for the other, but in regard to volume, the substitution was more than enough to sustain output. The point is that tight cooperage was forced into decline in Mississippi as a result of the early cutting out of the best white oak, but the cutting of slack cooperage could expand because of less exacting timber requirements.

The yield of gum naval stores fell off rapidly after 1924 as the virgin longleaf pine forest disappeared. Recovery in output was handicapped at first by the lack of suitable timber, and later, by competition from new industries which used the stumps of old-growth longleaf and slash pines and the waste liquors from pulp manufacture for their raw materials. The expansion which has occurred in wood naval stores yield has been enough to counterbalance the decline of the gum naval stores industry.

Fuller utilization of timber: There is less volume waste in utilizing a pine tree for pulpwood than for sawlogs, which means that more trees are required to produce a given volume of sawlogs than the same volume of pulpwood. Thus, the balancing of a large decline in softwood sawlog output with a large increase in softwood pulpwood production has had the practical result of extending the timber resource. The difference between pulpwood and sawlog cutting could be largely eliminated if the tree tops commonly left in the woods by sawlog operators were utilized for pulpwood. Although growing in use, this type of joint logging is still applied to only a small fraction of sawlog operations.

[9] This compares unfavorably with recovery elsewhere. Despite a declining forest resource in most parts of the country, national annual softwood lumber production in 1939–46 averaged 90 per cent of what it was in the 1920's. For the South as a whole, the percentage was 75.

The various changes in utilization practices that have just been described were not always planned in an effort to sustain total timber output. Large sawmills were closed when their wood supply was gone, and the small mills that replaced them were built by new enterprisers in the lumber-manufacturing field. When softwood sawmills closed because of a short timber supply, lumbermen did not turn to pulp manufacture: the pulp industry is an entirely new industry which moved in when it saw the opportunities in young southern forests. Again, most wood users who turned to poor quality trees did so reluctantly, using them only when better trees were unavailable.

V

Although utilization practices have aided in extending the usable timber resource, improved timber management can do far more in maintaining and eventually increasing timber yields. The forest situation in Mississippi has been vastly improved by the introduction of good management on a number of large properties in recent decades, but the continuing decline in the forest resource is a reflection of the generally poor level of timber management in the state.

Tree crops can be harvested, and at the same time the forest can be perpetuated and improved. This simple fact provides the basis for the art of timber management. The principal tools of timber management in Mississippi are cutting and protection against fire and grazing damage. The way in which cutting is done largely determines the kind of tree reproduction, the species composition and quality of stands, the rapidity of growth in trees left after cutting. Although supervised fires sometimes have a useful role in timber management, most fires are very injurious. Wild fire destroys seedlings and small trees. It kills or wounds larger trees and exposes them to damage from disease and insects. Grazing, especially by hogs and sheep in the longleaf pine belt of south Mississippi, limits the establishment and early growth of timber stands.

The public has aided timber management primarily through year-by-year extension of fire protection, the passage of the Mississippi Forest Harvesting Act in 1944,[10] and through gradual intensifying of management on public lands. Nevertheless, in 1950, the state-administered fire-protection system had been extended only to 51 counties out of 82 in the state. The Forest Harvesting Act established minimum cutting practices which insured fair cutting practice at best, but even this standard has not yet been accepted by a large proportion of the landowners and timber operators. Although the bulk of the public forest land is well managed, especially on the one million acres in national forests, public agencies hold only 1.7 million acres out of a total of 16.5 million acres of forest in the state.

Wood-using firms have been improving timber management at a rapid rate on their own lands. Yet the effect of this improvement is limited by the extent of their holdings (2.3 million acres) and the fact that at least half of this acreage

[10] The Mississippi Forest Harvesting Act prohibits commercial cutting in pine or pine-hardwood stands, unless there is left on each acre a minimum of four 10-inch pine seed trees with well formed crowns, or one hundred 4-inch pine trees. In hardwood stands analogous restrictions apply except that six seed trees are required.

is still poorly managed. Efforts by forest industry to improve management on noncompany lands have not had enough success to arrest the general forest decline.

The hard fact is that on some 11 million acres of forest (two-thirds of the total) held by 145,000 landowners, the forest is still deteriorating. On most of these properties, timber drain exceeds growth; logging takes virtually all the merchantable timber standing; little provision for adequate reproduction is made; the quality of timber continues to decline; and protection against fire and grazing damage is far below the standard needed.

VI

In discussing the outlook for Mississippi's timber-products industries, analysis here is confined to the prospect for timber raw material. The premise is made that demand will hold at recent levels for some products and continue to increase for others and that no other factor will limit production except possibly timber supply. Although this premise may not be wholly realistic, the decline in the volume, size, and quality of timber is the chief brake on Mississippi's output of timber products today. The importance of this role of timber supply is magnified by the fact that the forest resource cannot be modified as quickly as other limiting factors. Trees grow, but since it takes many years to mature a timber crop, the supply of timber is relatively inflexible in the short run.

Two other basic qualifications underly the following discussion for individual products. One is that the same amount of improvement in forest management is assumed in the years ahead as in the years between the two forest surveys. The other is the assumption that forest industry needs to use timber of the same sizes, species, and quality that it uses now.

Lumber: Observations about the outlook for total timber production apply most strongly to lumber since sawlogs comprise nearly half of the output of raw timber products. Between the two forest surveys, with average softwood lumber manufacture amounting to 925 million board feet annually, sawlog volume of softwood species dropped 29 per cent. If it is assumed that in the next 14-year period an attempt is made to manufacture softwood lumber at about the 1947 level (some 900 million board feet), the decline in softwood growing stock will continue to be large; and curtailed output will be unavoidable. This conclusion is reinforced by the realization that pulpwood competition for pine timber will be far stronger than it has been. Already, nearly 30 per cent of the pine volume cut for sawlogs is in trees below 14 inches in d.b.h., the same sizes in which pulpwood cutting is concentrated.

Hardwood sawlog volume did not decline between the two surveys as much as softwood, but the better quality trees and more desired species have been depleted at a much faster rate than the overall 20 per cent decline in hardwood sawlog volume indicates. In terms of the usable resource for sawlogs under present standards of utilization, the decline in hardwood sawlog volume may be even greater than the drop in softwood. The prospect for hardwood lumber is clouded further by the fact that current hardwood lumber manufacture (509 million

board feet in 1947) is at least one-fourth more than it averaged between the two surveys.

Pulpwood: Although their forests are generally well managed, pulp companies as a whole own about a third of the land needed to supply all of their wood requirements at present rates of timber growth. Even under a long period of intensive management, it is not likely that growth can be more than doubled in the foreseeable future. Some increase in company holdings can be reasonably anticipated, but various obstacles, prominent among which are the costs of blocking out new large holdings, suggest that the industry will continue to rely heavily on the outside sources of supply. On noncompany lands, however, depletion of the timber resource is still the rule. Here, the impact of the great expansion in pulpwood production which has occurred already, and increasing competition for small trees with the lumber industry may provide a brake to further expansion in pulpwood cutting.

The cutting of pulpwood, which occurs principally in trees 6 to 12 inches in d.b.h., has not been enough to change the total softwood volume in these tree sizes between the forest surveys of 1932–35 and 1946–48. But current pulpwood production is twice as much as it averaged between the two surveys. Even if softwood pulpwood output should remain stationary at the 1948 level of 1.2 million cords, the softwood inventory in 6- to 12-inch trees may be expected to go down about one-fifth in another 14 years.

Perhaps more important to the future of pulpwood production in Mississippi is the fact that sawlog cutting for lumber has been moving steadily into the smaller tree sizes which are used for pulpwood. If the trend of softwood sawlog inventory continues downward at its current rate of at least 2 per cent a year, an even larger proportion of sawlogs will come from small tree sizes; and competition between the pulp and lumber industries will become much sharper.

Veneer: Four-fifths of all veneer production is from sweetgum, black and tupelo gums, cottonwood, and yellow-poplar; and most of the production is from trees 16 inches in d.b.h. and larger. The resource in these species and sizes amounts to some 2,700 million board feet. Grade limitations cut down the resource which would be usable, by current standards, to no more than 1,750 million feet. To this inventory, probably less than 90 million feet a year are added in growth.

These statistics might indicate a resource which would be adequate to maintain the present level of drain for veneer (128 million board feet in 1946) for many years. But other industries, particularly the lumber industry, take a far bigger annual cut out of these desired species, sizes, and grades than does the veneer industry. The effect of this competition is seen in the forest survey record of a drop of 2 per cent in the number of 16-inch hardwood trees between 1932–35 and 1946–48 and bigger declines in larger sizes ranging up to 41 per cent in 26-inch and larger trees. When it is realized also that declines have been even greater in the better tree grades which are used for veneer stock, the rapidity of depletion in the resource used for veneer becomes apparent.

Cooperage: The prospect as to the timber resource for slack cooperage is favorable, but whether production can be increased is another question. Hard-

wood inventory and growth might be ample to support further expansion of slack cooperage manufacture, but cooperage producers will have to outbid lumbermen and other hardwood users for raw material.

The outlook for tight cooperage is less promising. Some 1,200 million board feet of sawlog volume occurs in species of the white oak group in trees 18 inches in d.b.h. and larger, but no more than 300 million feet is in species and quality acceptable for tight cooperage under present standards of utilization. In 1946, drain of all oak (mostly white oak) for tight cooperage was 50 million board feet, or about a sixth of the currently usable resource. Since other products also make inroads on the usable resource, there is a strong indication of short supply.

Naval stores: The tremendous cut-back which occurred in the gum naval stores industry of Mississippi with the liquidation of virgin longleaf and slash pine in the 1920's may prove to be permanent. Despite technological improvements in naval stores operations in recent years, not much longleaf and slash pine is chipped within the state, primarily because stands are not considered economical to operate under present conditions.

The wood naval stores industry based on the use of stumps of old-growth longleaf and slash pines will be a diminishing industry. The resource is estimated to be roughly 6 million tons, which is a 10–15 year supply at the present rate of use. Naval stores produced from waste liquors as a byproduct of pulp manufacture will vary in proportion to pulp output.

Miscellaneous products: Producers of minor products with exacting timber requirements—such as handle stock, ski stock and shuttle blocks—may have some difficulty in obtaining adequate timber supplies. Their ability to get needed timber may depend more on new growth in the particular species and quality required than on their ability to compete with other users of timber.

Fuel wood and minor timber items with unexacting species and quality requirements do not face a prospect of further decline on the basis of timber supply. The forest resource is relatively plentiful in those species, sizes, and grades not in demand for major products.

VII

It is not the function of this article to discuss the measures needed to insure an adequate wood supply for Mississippi's timber-products industries, except to note that a program can be formulated and justified economically.

An adequate growth goal for the state has been calculated at 3 billion board feet or 800 million cubic feet annually.[11] This goal calls for a two-thirds increase

[11] A long-range growth goal for the nation, calculated to produce the amount of timber that a prosperous nation might use if the supply were sufficient to keep forest products of suitable kind and quality available at reasonable prices, has been estimated at 20 billion cubic feet a year, including 72 billion board feet of saw timber. The goal also includes a margin for irreducible losses, ineffective growth, new uses, exports and a backlog for national security. (See pp. 33–45, *Forests and National Prosperity*, Miscellaneous Publication No. 668, U. S. Department of Agriculture, Aug. 1948). Mississippi's part of the national goal was calculated by taking into account the acreage of commercial forest land, the potential rate of growth in the principal forest types, local accessibility of the timber, ease of management, and position with respect to consuming markets.

in sawlog growth and a 50 per cent increase in growth of total growing stock. The improvements in utilization and management that would bring growth and drain into balance at this point would insure a greatly expanded forest industry for Mississippi. The practical difficulties of attaining greatly increased timber yields are many, but there is no problem in the growth capacity of the soil. The art of timber management has gone well beyond the point where it can meet anticipated future timber requirements.

Because of the current rapid decline in Mississippi's forest resource, it cannot be supposed that any attempt to grow sufficient timber will be painless to forest industry. Improved timber management implies, among other things, that more landowners will lighten their harvest cutting to insure prompt and full reproduction after cutting and to build up growing stock for higher future yields. The effect will probably be to reduce drain on the forest in the short run, which will mean a corresponding decline in forest industry. If drain is not contracted, it is unlikely that improvements in growth will be rapid enough to compensate for the rapid depletion of growing stock.

COMPULSORY UNION MEMBERSHIP AND PUBLIC POLICY

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I. INTRODUCTION

Notwithstanding the outlawing of the closed shop by the Labor-Management Relations Act of 1947 (the Taft-Hartley Act), the closed shop is not a closed issue. Indeed, much of the vehement denunciation of this Act has been aimed at the proviso which outlaws the closed shop. Efforts to legalize again the closed shop are being intensified.[1] Unions want a return to the provisions of the Wagner Act under which the closed shop was legal, and they would like unqualified federal legalization of the union shop.[2] Under a "closed shop" agreement the employer can hire only union members; the "union shop" agreement requires that the worker join the union within a stipulated time period after his employment.

Any meaningful (real) distinction between these two types of agreements centers around the membership admission policies of the union. A frequent objection to the closed shop is that unions restrict membership (to reduce competition for jobs, to discriminate against some ethnic and racial groups, etc.) and thereby exclude certain workers from many job opportunities. Obviously, if a union having a union shop agreement is also "exclusive" in its membership policies there is no real distinction between the two.[3] For the purpose of examining the principle of compulsory union membership we may consider the two concurrently (with a few minor exceptions which are indicated) since the case for each rests upon the same basic premises and the differences between the closed and union shop will not invalidate our analysis of these premises.

One would hesitate to repeat in the pages of a professional journal the commonly employed arguments, pro and con, about the closed shop-union shop issue were it not for the fact that among even professional economists many of the specious claims herein examined have consistently been advanced as justification for the acceptance of compulsory union membership.[4] Current acceptance of many of these claims must be based upon either ignorance or a repudiation of

[1] See the entire issue of *Economic Outlook*, CIO, Jan. 1950.

[2] Under the Taft-Hartley Act the union shop is legal except in those states which specifically have outlawed it; in this instance state law takes precedence over federal law. Under the Act unions may bargain for a union shop only if properly authorized to do so by a majority of all employees in the bargaining unit.

[3] The Taft-Hartley Act does prohibit the requirement of excessive or discriminatory fees as a condition precedent to membership when a union shop agreement exists.

[4] The problems of "preferential shops," "maintenance of membership," "union hiring halls," and other "union security" provisions are omitted from this discussion because the author considers them less significant from the standpoint of the public interest than either the closed or union shop, and the primary issues are the same.

distressingly elementary economic and political principles. Fear of a perhaps laborious repetition, therefore, must not deter us from a close scrutiny of the issue of compulsory union membership; the implications to public policy for a free society are too great.

II. UNION CONTENTIONS

Union leaders for years have urged that the closed or union shop is necessary to union security because of the possibility of employer discrimination against union members in employment, layoff, recall, and discharge practices. Unquestionably, the history of the struggle of organized labor is replete with countless instances of such employer discrimination against union members and sympathizers. This argument, however, must be viewed in its historical perspective, and it is apparent that under existing labor laws (and under any labor laws foreseeable in the future) this argument is virtually irrelevant today. Employers may not legally discriminate against union workers, and the National Labor Relations Board has leaned over backwards to prevent such discrimination and to penalize employers guilty of discriminatory practices. This is not, of course, to say that there is no discrimination, any more than one would say there is no crime because crime is unlawful; but certainly any such discrimination which may exist is not important enough to justify compulsory union membership—a "remedy" which creates more problems than it solves.

Second, union leaders frequently advance the so-called "free riders" argument. It is held that it is unjust for non-union workers to benefit from the efforts and sacrifices of their fellow workers who, as members of the union, secure gains for all workers in the unionized plant. Thus, union members pay dues and otherwise support the union—but all workers in the plant are advantaged by the union's efforts. It is also argued by proponents of compulsory union membership that the situation is analogous to the payment of taxes by all individuals in a democratic state irrespective of political party preference; it is said that "The philosophy of the union shop . . . is rooted in the basic democratic principle that governs our political life; namely, the rule of the majority."[5]

The first aspect of this argument implies that we should give legal sanction to involuntary membership in every organization from which we derive benefits, yet even the most ardent unionist would be unwilling to see such a legal precedent extended to its logical conclusion: compulsory membership in all organizations from which we derive any benefits. The contention that unions are analogous to the government is not only arrant nonsense but also pernicious nonsense. Implicit in this forced analogy is the idea that unions are sovereign (indeed, one of the singular developments of our day is the concept of "union sovereignty"; such a notion is inconsistent in its practice with the existence of a sovereign state and conflict must ensue—either the government is sovereign or the unions shall supersede it).[6] More particularly I wish to challenge the idea of comparing a

[5] Clinton S. Golden and Harold J. Ruttenberg, *The Dynamics of Industrial Democracy*, p. 205.

[6] For the foremost discussion of the union monopoly issue, see Henry C. Simons, "Some Reflections on Syndicalism," *Economic Policy For A Free Society*.

union (and the payment of dues) with a democratic state (and the payment of taxes). The state is an all-inclusive concept which includes majority and minority alike; however, the union, which operates within the framework of the sovereign state, can best be described as a producer-minority group which strives through monopoly power to advantage a few at the expense of the vast consumer majority (a majority which is composed primarily of workers). The state, however imperfectly it may function in practice, is charged with the responsibility of governing in the interests of all citizens while the union pursues policies designed to benefit a few. The Golden and Ruttenberg concept of the basic democratic principle being *merely* the "rule of the majority" is further illustrated by their statement:[7]

> The essential difference between a democracy and, say, Hitler's government is that in the former a majority do the coercing, or if the action is unanimous it is self-imposed; while under Hitler the minority is doing the coercing, and though an action may be generally approved by the people it is forced on them from the top.

This is a "good bad" example of the artless innocence which pervades their discussion of the union shop. What, then, of the minority? Neither Golden and Ruttenberg nor unions seem to have concern for the protection of rights for the minority; rather it is their view that the minority ("the recalcitrant man, the ignorant man") must be "compelled" to "submit" to regulation. Our federal government and each of the individual states have elaborate safeguards—constitutional guarantees, statutes, and a complex judicial system—designed to protect the rights (life, liberty, and property) of individuals; and within this formal body of governmental protection there operate a number of political parties, the members of which are guaranteed "equal protection under the law" regardless of whichever party may be in power. Unions not only do not have such safeguards but probably would not want them—the "dynamics of industrial democracy" appears to justify virtually any act of coercion providing only that the "majority" does it.

Third, it has been argued that since under a closed (or union) shop agreement union leaders will be freed from the necessity of engaging in intense organizational efforts because all workers must be members of the union, union leaders will be free to cooperate with management. Thus freed from organizational activities, union leaders can devote more time to working jointly with management representatives to improve specific and over-all efficiency of the firm. Some business leaders have stated that in their experience they have found this to be true. However, we shall examine more closely this idea of "cooperation" under the subsequent section dealing with public policy, merely noting here that if unions are not granted monopoly power they will disrupt a firm until they get it.

Fourth, union leaders claim that the work force will have a higher morale because of the added security deriving from the closed (or union) shop and that this higher morale will result in increased productivity. *Increased union security*

[7] Golden and Ruttenberg, *op. cit.*, p. 217.

does not necessarily mean greater security to the individual worker. True, the worker is secure from employer discrimination, but he now becomes subject to the discrimination of the union officials. Furthermore, increased union security does not protect the worker from the incidence of unemployment due to contraction of the labor force by the employer, except insofar as he is relieved from the competition of nonunion workers. This, of course, reduces the job security of the nonunion worker; he is excluded from many job opportunities. The ingenuous rejoinder is that he should join the union in which event he still may be laid off. Also, it seems likely that morale may not (probably will not) be very high if an appreciable number of workers are forced to join the union against their will.

Fifth, it may be argued that in return for the closed or union shop agreement the union is willing to permit the employer a freer hand in hiring and firing. This concession can be made because, regardless of whom the employer hires or fires, every man on the job will be a union member. Within limits there may be some basis to this, but I doubt its over-all applicability in union-management relations. Assume, for example, that an employer should seek to discharge for just cause, say incompetence, a worker who is a loyal supporter of the union officials. It would be sheer romanticism to require management to rely upon the disinterest of union officials under these conditions.

A similar contention is that it reduces the "... temptation to 'make' or 'blow up' issues or grievances in order to demonstrate the value of the union to nonmembers."[8] This is questionable. Union officials will still have the temptation to "blow up" issues in order to demonstrate their personal value to the union. Golden and Ruttenberg ask us to believe that a still more powerful union (one with the union shop) will be more fair, will handle grievances on their "merits."[9] That is to say, having more power the union will be benevolent, restrained, and just in its prosecution of grievances. *The worst kind of power is discretionary power; discretionary power lends itself to absurd, irrational, and inequitable application*. And as Lord Acton's famous dictum has it: "All power tends to corrupt, and absolute power corrupts absolutely."

Sixth, it sometimes is said that under a closed or union shop agreement, work stoppages arising as a result of factionalism within the union can be eliminated. This internal strife can be prevented through the union's power to discipline its members. Is it unduly cynical to suggest that this "disciplining" of "recalcitrant" members approaches in nature and in effect totalitarianism?

Seventh, unions want security against rival unions.[10] Workers might wish to join or support the formation of another union, yet would hesitate to do so for fear of losing membership in the "recognized" union and thus losing their jobs. It should be evident that this is contrary (in principle and even more so in practice) to the principle of a worker freely joining a union of his own choice. It can be argued that workers rarely lose their union cards as a result of espousing

[8] E. Wight Bakke and Clark Kerr, *Unions, Management and the Public*, p. 117.
[9] Golden and Ruttenberg, *op. cit.*, pp. 220–221.
[10] *Economic Outlook*, *ibid.*, p. 2.

the cause of another union. This may be true; it is not necessary to deprive the worker of his union membership under either the closed or union shop. In most instances the threat—and it need not be voiced to be a threat—will serve to quiet "recalcitrant" elements.

Let us consider now the underlying motives for the union demand for the penultimate in union security—the union shop, or the ultimate—the closed shop. It seems to me that, realistically, the union motives can be summed up in the statement that both of these devices mean greater power: a stronger union.

Being more specific, the closed (or union) shop is a device through which the union has an assured membership and assured dues collection (usually via the check-off); no member can afford not to pay his dues if he wants to keep his job. Special assessments are more easily collected also.

Second, the union wants security from several hazards: (a) security from the instability of its membership which results from the natural if not inevitable turnover of the work force in a modern industrial society; (b) security from the apathy, inertia, and lethargy of workers who, were they not required to maintain good standing in the union to keep their jobs, would drop their membership through lack of interest; (c) security from the competition of other unions for the membership and loyalty of the workers; (d) security from internal factionalism. The existence of a closed or union shop provides the union officials with a latent weapon to stifle or silence their opponents within the union; (e) finally, the union desires security from the individualism of workers. Just as there may be a minority of workers who are intensely pro-union, there may be a minority of workers who are intensely anti-union, anti-union to the extent that they not only do not care to join the union but that they may even actively oppose it. The closed shop provides a way of dealing with these "recalcitrant" and "ignorant" men.

According to William M. Leiserson some of the "far sighted" labor leaders feel there has been too much emphasis on the closed shop since this policy ". . . has in some instances *led to abuses in union management*, has stiffened the opposition of employers to all union shops and has alienated influential sections of the public."[11] Again one is impressed by the effects of power: officials may become authorities rather than leaders and internal democracy is likely to be stifled, i.e., opposition factions may be "disciplined."

III. EMPLOYER CONTENTIONS

The employer in opposing the closed (and union) shop states that it is un-American and undemocratic. As to the former, we must wonder what is meant. The closed shop has been historically an objective of American labor unions to a far greater extent than it has been an objective of European unions.[12] This may be in part the result of the more intense and prolonged opposition to unions and

[11] William M. Leiserson, "Closed Shop and Open Shop," *Encyclopedia of the Social Sciences*, Vol. III, p. 570. (Italics mine.)

[12] *Ibid.*, pp. 569–570; also, John V. Spielmans, "The Dilemma of the Closed Shop," *Journal of Political Economy*, April 1943, p. 117.

in part a result of the greater geographical and social-economic mobility of workers in the United States. However, as Leiserson points out, the union shop has been more or less accepted by European employers for many years.[13] With regard to the latter claim that compulsory union membership is undemocratic, it appears to me there can be no real cause for disagreement. Workers *are coerced* into joining a union, and, as was pointed out in a preceding section of this paper, the analogy between forced participation in a union and participation in a democratic state is specious and not legitimate.

Second, management may object that by having a compulsory membership agreement with the union it in effect is coercing workers to join a union and thus interferes with the worker's right to determine the issue of membership or non-membership himself. Many persons, including affected workers, believe that it is the function of union leaders to provide sufficient incentive to the workers to cause them to want to join the union. Compulsory membership is the issue of this paper. It will be considered in greater detail in the following section.

Third, management for years has held that compulsory union membership transfers the employer prerogatives of hiring and firing to the union although the union does not take over the corollary responsibility for efficiency of the work force. It is evident that control over the character of the work force is necessary to the maintenance of efficiency. Intelligent discrimination between good and poor workers is essential to building and holding a competent work force. (Employers under closed or union shop provisions may be forced to discharge competent workers if they have been forced from the union.)

Finally, the employer will argue that the closed shop gives to the union a monopoly over the labor market, a monopoly of the labor supply. With this contention there can be no disagreement. It is because the closed shop does establish a monopoly in the labor market that the union wants it. To those who want to maximize competition (and freedom) in labor (and other) markets, this is the most potent of the employer arguments against the closed and union shops.

The employer's basic motive in opposing compulsory union membership is, in essence, that most employers fear a strong union. Specifically, employers are concerned with efficiency, and they fear that the closed shop will derogate from this because of union control over the work force. Finally, most employers honestly seem to believe that compulsory union membership is undemocratic. Judging from past performances, however, a few management officials probably would regard this as convenient rhetoric.[14]

Some employers have favored the closed or union shop. They have pointed out that their recruitment problem is minimized when the union undertakes to furnish needed workers. They have also indicated that the union has assisted by undertaking such other personnel functions as providing an upward channel of information and contributing to speedy and satisfactory settlement of grievances. Some employers have stated that under a closed or union shop agreement union

[13] Leiserson, *op. cit.*, p. 570.

[14] The "Ludlow Massacre" (1914); the thugs employed as strikebreakers in the Remington-Rand strikes of 1936, etc.

leaders have been most cooperative with respect to improving plant efficiency and disciplining of workers. Disciplinary problems may become more severe, however, since the foreman's prestige is reduced substantially. Finally, some feel that it may be advantageous because it "tends to standardize wage costs."

With the exception of the final point the management arguments advanced in favor of compulsory union membership (and this is also true of the union hiring hall) involve the assumption by unions of what properly should be the responsibility of management, that is, assumption of managerial functions, particularly those of personnel administration: recruitment, communication, grievance settlement, and discipline. Compulsory union membership is not necessary to securing these benefits to a limited extent, and management properly should not relinquish completely these functions to the union because management cannot transfer the responsibility for successful performance to the union.

The increasingly popular notion of "standardized wage costs" is a euphemism for monopoly pricing. The idea is that if all employers are forced to pay the same wage rates then none is at a competitive disadvantage with respect to wage costs. This would seem to imply that the "standards" are being applied on at least an area-wide basis. This would be most likely at present in the case of craft unions in particular localities. This would be another of various attempts to eliminate all aspects of labor from competition, thus largely eliminating competition from the economy since a preponderance (approximately 80 per cent) of total costs is labor cost, direct or indirect.[15] It should be noted that equal wages do not of themselves mean equal labor costs but rather highly unequal labor costs because of differences in productivity; hence, were wage rates alone considered, competition would not disappear in the short-run. This factor is offset to a large extent, however, by labor's efforts to enforce, with much apparent success (e.g., the bricklayers), maximum output standards, thus equalizing labor costs and moving towards the elimination of competition from the economy.

IV. PUBLIC POLICY

Public policy about labor issues may not properly be determined by reference to the demands either of organized labor or of employers. Were agreement between these two as to what should be done the criterion for public policy, the public soon would be confronted by gigantic bilateral monopolies which would make the old "robber barons" seem pallid and insipid by comparison.

The primary objectives of unions are to stay organized and to retain present gains while securing additional privileges. The creation of vested interests makes self-perpetuation the major objective of such monopoly groups. With the exception of the federal government and its vast system of administrative agencies, unions represent the largest combination of monopoly power in the United States today. Compulsory union membership is a device to make it easier for unions to stay organized and to perpetuate themselves.

Involved in this issue are three major groups: (a) the general public; (b)

[15] See Leo Wolman, *Industry-Wide Bargaining*, especially, pp. 31–39.

business firms, which, insofar as the economy is competitive, must benefit the general public in order to advantage themselves; and (c) unions, which by their nature are monopolistic and strive to advantage producer-minorities at the expense of the general public.

Fundamentally, unions are monopolistic and strive continually to secure more for their members at the expense of the consuming public; this is true whether or not there be compulsory membership in the union since *effective control over wage rates by the union is control over job opportunities.* (Willingness on the part of the union to accept as members workers whom employers will not hire at the union-controlled wage rate has no practical employment value to those workers.) The general public, as consumers (including other workers), must pay higher prices for the products made by the union workers and, by limiting job opportunities in the unionized segments of the economy, unions force jobless workers to seek employment in other less-productive pursuits, thus depressing wage rates there. This lowers their wages and income as well as reducing the real income of the community. It is one of our political incongruities that we foster union monopoly while decrying monopoly in general.

Unions have passed successfully through a period of opposition, into a period of toleration, and thence into a period of positive encouragement by the federal government. There can be no doubt that unions are considered instruments of public policy.[16] There has been a reckless acceptance of the view that unions are desirable by the general public, by governmental officials, and by many academicians. The entire question of unionism from the standpoint of public policy needs more detailed exploration than it has yet received. Most writers have dealt with the subject in somewhat general terms (e.g., Henry C. Simons); or they have been partisan propagandists (e.g., Golden and Ruttenberg); or they have been romanticists who find fantasy more pleasant than reality (e.g., R. A. Lester who feels that "... one may conceive of the labor market as subject to its own peculiar principles ..." and "... view labor unions as political institutions, striving to survive, expand, and gain certain positions within a labor movement").[17] Having such a "conceptual framework," we may now reject economic analysis since by some mysterious alchemy of words monopoly ceases to be an economic problem and becomes a political institution! "The ... remark seemed ... to have no sort of meaning in it, and yet it was certainly English"—*Alice in Wonderland.*

It has been suggested that the objections to compulsory union membership are to a large extent not objections to the compulsion itself but rather objections to the abuses of power which frequently accompany the closed or union shop.[18] This is comparable to the naive notion that a dictatorship is desirable if benevolent. Monopoly power may be expected to be abused since the purpose of mo-

[16] See the "findings and policy" of such labor legislation as the Wagner Act of 1935, the Wages and Hours Act of 1938, the Taft-Hartley Act of 1947.

[17] Richard A. Lester, "Some Reflections on the 'Labor Monopoly' Issue," *Journal of Political Economy*, Dec. 1947, p. 530.

[18] Spielmans, *op. cit.*, p. 116.

nopoly power is its use; and its use is abuse. John V. Spielmans has suggested that individual workers might be protected from abuse under the closed or union shop by the establishment of a number of restrictive rules and regulations coupled with a complex administrative agency to secure compliance to the regulations.[19] Spielmans' suggestions seem to be based on his uncritical acceptance of the fallacious democratic state-union analogy although he does, however, realistically recognize the fact that unions are monopolies. He says:[20]

> Nor would ["private" (unregulated)] unions be allowed to compel the workers' membership and to operate an unregulated job monopoly in the form of a closed-shop agreement.

Unfortunately, his suggestion that unions might be permitted to function as job monopolies regulated in the public interest falls far short of reality.[21] Were unions regulated in the public interest, wages, hours, and other working conditions would be the same as (or would very closely approximate) those which would exist under a free market (with the exception of the social costs of regulation). This would preclude unions gaining at the expense of the remainder of the community and thus negate their economic effects (and their desirability to members). Also Spielmans does not tell us how either individual workers or the general public are to be protected from the government agencies which he would have established.

Anyone who has a modicum of familiarity with the vagaries of the existing government administrative agencies is aware of the difficulty (if not impossibility) of securing rational interpretation and application of law. The mischievous effects of these agencies are evident to any competent student of law; embracing within one body the legislative, executive, and judicial functions, and operating within such broad discretionary limitations as "fair and reasonable," administrative agencies rapidly are supplanting law with administrative fiat. Appeal to courts from their rulings must, in most instances, involve a contention that "due process of law" has not been observed; and "due process" generally means "hearing" and "giving consideration to" the facts and claims of the parties. Furthermore, such appeal is costly and time consuming beyond the resources of most individuals.

According to CIO figures approximately ten million workers were covered by "union security contracts" before the passage of the Taft-Hartley Act.[22] If, say, about ten per cent of these workers did not wish to join a union, "union security" patently would not be materially affected were they not forced to join a union.[23] If the proportion of workers who do not want to join a union is any greater, then the suggestion that they be coerced into doing so represents an even greater (quantitatively) threat to individual freedom.

[19] *Ibid.*, pp. 120–122.
[20] *Ibid.*, p. 122.
[21] *Ibid.*, pp. 120 ff.
[22] *Economic Outlook*, *ibid.*, p. 2.
[23] This is not an unreasonable figure in the light of the experience of NLRB elections and in shops in which workers are really free to join or not to join a union as they see fit.

Golden and Ruttenberg say that after management has granted the union shop it is largely the responsibility of the union leaders whether union-management relations are "negative" or "... blossom out into co-operative and constructive undertakings."[24] According to them the "price" of "union co-operation" is the union shop and it "buys" also "industrial peace."[25] The CIO urges that "stability" in the bargaining relationship ensues.[26] The price of these things we are told is the union shop—compulsory union membership. But is this the price and are these things desirable from the standpoint of the public interest?

The "price" is higher than it appears. We should be permitting organized minorities to coerce us, under threat of industrial warfare, to allow them to do very much as they choose even though their actions be diametrically opposed to the public interest. Acquiescence to coercion leads to further acquiescence and eventual culminating conflict; the demands of power are insatiable. In addition, the individual worker who does not want to join a union would be sacrificed on the altar of the trinity Co-operation, Peace, and Stability in industrial relations. This trinity, achieved at the "price" demanded, is an illusion. British industry for a generation has striven towards these goals and sometimes is cited as an example of harmonious union-management relations. Its joint labor-management councils are cited as something for which we may aim. Yet British industry is notorious for its cartellization, its inefficiencies, and the collusion between management and labor to restrict technological innovation. In this country the railroads often are referred to as good examples of an industry in which management and labor co-operate and have attained a reasonable degree of peace and stability (even though the closed shop is unlawful on the railroads). Yet the railroads are notorious for featherbedding and absurd work regulations. In the building trades contractors and unions join together to secure and retain out-moded municipal building codes, to restrict, via often outlandish local license requirements, entrance into occupations, to restrict technological innovations including the use of pre-fabricated housing and/or sub-assemblies.

These three illustrations—British industry, and the railroads and the building trades in the United States—are fairly representative of the trinity Peace, Stability, and Co-operation.[27] The history of union-management "Co-operation" is not such as to augur well for the public interest. Co-operation between management and union will inevitably shade into collusion against the public interest unless there be substantial intra-industry as well as inter-industry competition.

The efforts on the part of union officials necessary to maintain interest and membership in the union are healthful to the labor organization itself and they are essential for the prevention of decadence of leadership. The possibility that

[24] Golden and Ruttenberg, *op. cit.*, p. 228.

[25] *Ibid.*, p. 230.

[26] *Economic Outlook*, *ibid.*

[27] It is not to be assumed, of course, that this brief discussion of these industries implies more similarity than is specifically stated. The author is well aware that there are vast dis-similarities among the industries. They do not however negate or justify the prevailing conditions.

a union and its officials may be supplanted by a rival organization should have beneficial effects in terms of internal democracy for the union workers. "There is no means, *save internal competition*, to protect the whole community against organized labor minorities and, indeed, no other means to protect the common interests of organized groups themselves."[28]

Many supporters of organized labor who are genuinely concerned about the excessive powers deriving from compulsory union membership are apprehensive that without this power unions will be weakened and further that this will lead to their destruction and disintegration. With regard to the former, obviously, one of the desired objectives of prohibiting compulsory union membership is to weaken the power of unions. As to the latter apprehension there is no foundation for such a view. Unions grew, even in the face of very determined opposition by business and in the face of substantial opposition by legislative bodies and the courts. So long as labor organizations have protection against unfair labor practices on the part of employers, there is no reason to assume they will disintegrate.

Effective freedom is dependent upon the existence of a maximum of real alternatives. The fewer alternatives confronting the individual, the less free choice he has. Non-free societies are characterized by a minimum of alternatives: comply—or else. A maximum of alternatives is the *sine qua non* of a free society. Compulsory union membership, whether by the closed or union shop or by some other device, represents an additional and unnecessary restriction upon the individual's freedom to decide what he will or will not do.

The greater the powers assumed by unions, the more clamorous will be the demands that union activities be delineated and circumscribed by government to protect consumers from producer-minorities, to protect nonunion workers from their organized fellows, and to protect organized workers from their officials. But the expansion of specific governmental controls frequently leads to results neither anticipated nor desired by the public which supported them. Indeed, while they may be advocated under the slogan of curtailing the "anarchial freedom" of the few to benefit the many, they sometimes become the province of discretionary authority and in their execution lead to the very kind of irresponsible power which it was their intention to eliminate. The only protection the community as a whole has against producer-minorities is the competition of a free market or the specific governmental controls associated with a dictatorship (and specific governmental controls by their nature negate their avowed purposes).

Compulsory union membership violates the freedom of individual workers, strengthens the power of labor monopolies which already are so powerful as to represent a serious threat to a free society, and facilitates the exploitation of the consuming public by the more strongly organized union members.

[28] Henry C. Simons, *op. cit.*, pp. 122–123. (Italics mine.)

MEMBERSHIP PARTICIPATION IN THE AMERICAN FLINT GLASS WORKERS' UNION

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Americans are convinced that members should participate in the activities of the organizations to which they belong, whether they are political parties, churches, chambers of commerce or labor unions. It is "axiomatic" that an active membership produces a healthy, successful and democratic group. Despite the general acceptance of these beliefs, leaders of these organizations and outsiders very frequently deplore the lack of interest displayed by the rank and file.

The great increase in the power of labor unions in the past 15 years has made significant the part played in them by the individual union member. The present study analyzes membership participation in the American Flint Glass Workers' Union, AFL, one of the country's older multiple-craft unions which, since NIRA days, has accepted as members the semiskilled and unskilled workers[1] of the industry. The AFGWU has approximately 35,000 members and enjoys a reputation of efficiency and democracy.

I. SIGNIFICANCE OF PARTICIPATION

The possible advantages of an active union rank and file are numerous. Workers who take a lively interest in the union satisfy their needs for fellowship, recognized status, job security, independence of the "boss" and a feeling of mastery over their working life. An alert membership produces responsive leaders and rejects the would-be dictators, racketeers and, possibly, "party liners." Solidarity in the ranks also increases the union's bargaining strength.

Low membership participation suggests that the union's activities do not in themselves satisfy vital needs of the members. Such a situation paves the way for control by a minority group which may exploit the general membership, the employers, and the consumers for its own benefit.

Marked activity by the rank and file, however, does not necessarily indicate that all is well. Behind large meetings and high votes may lie bitter intra-union battles, a mass protest against official corruption, or an upsurge of feeling against a threatening employer. Grass-root wildcat strikes are not welcomed by either national union officials or employers. Nor is it clear that demands pressed by the general membership are sounder economically or socially than those sponsored by the union officials who have had more opportunity to become acquainted with the employers' problems. The "fever chart" of membership participation may register temperatures too high as well as too low.

II. PROMOTION AND RESTRICTION OF MEMBERSHIP ACTIVITY

The AFGWU strives for high rank and file participation in several ways. It provides many possibilities for activity and tries to make participation attractive.

[1] Known as "miscellaneous" workers.

The union also relies on compulsion. Some of these last measures, however, restrict as well as promote membership participation.[2]

Providing an Opportunity

There are elaborate constitutional provisions insuring members the opportunity to take part. Local unions are instructed to hold meetings once a month and "in such a way" that the members can attend. At these meetings members can originate, discuss and vote on future contract proposals, constitutional amendments, strike calls, charges of violation of the union's laws by individuals or other local unions and many other less important issues. They may also review the quarterly financial reports by their local union's auditing committee and the quarterly financial reports of the international secretary and the annual financial reports of certified public accounts on finances of the international union. Members of the skilled locals[3] also nominate and elect their national executive board in their local meetings.

Local members in good standing are also eligible to vote for and to be chosen as:[4] local committeemen, local officers, convention delegates, and skilled national executive board members. They are eligible also for *election* at the national convention as miscellaneous national executive board members, national organizers, delegates to the AFL convention or national officers. In addition to casting their ballots for these officials, convention delegates decide on propositions to be submitted to the employers, pass constitutional amendments subject to membership ratification, and approve resolutions.

The individual members have the opportunity to read a number of publications originating in the national office and to receive many communications. All members are sent the union's 64-page monthly journal *The American Flint*. Any member, by special request, may obtain the monthly circulars and special letters which are regularly sent to all executive board members and, in small quantities, to the local unions. Select portions of these communications are read at meetings, and the locals' copies are available for membership examination. The annual convention proceedings are sent to each delegate, national representative, and national executive board member, and to each local union where they also may be examined. Furthermore, each delegate makes a report to the membership upon his return from convention.

Making Participation Attractive

Fellowship, pleasant surroundings, financial aid, and recognition are used in an effort to make union activities attractive. Enthusiastic local union members have organized ladies' auxiliaries in some areas, and the large miscellaneous locals frequently hold parties after the meetings. *The American Flint* carries

[2] The material in this section is based on the union's 1949–50 constitution, proceedings and bulletins of many years, and interviews with national officers.

[3] In each plant or community will be one or more locals for skilled members only, and one or more for miscellaneous members.

[4] If they have been in good standing for the previous year.

accounts of such local activities and of the personal achievements of the more interested members and their families. These stories, written by the local's reporter and going into the union homes of the community, become an effective means of recognition.

The local unions pay the expenses of convention delegates, and the national union pays the expenses of executive board members and other men on authorized national union business, such as contract negotiations or organization work. The national convention programs include speakers, outings, and dinners which appeal to the delegates. The inclusion in the comprehensive convention proceedings of all statements made on the floor by each delegate is another significant form of recognition for participating members.

Use of Compulsion

The AFGWU employs penalties to insure that members perform their duties. The constitution provides for fines against members and local officers who fail, without proper excuse, to attend committee and local union meetings. One skilled local union, for example, fines its members $1.00 for the first meeting missed and doubles the fine for each consecutive absence. Officers who do not appear for installation, or who do not "act," may be fined, as may financial secretaries and committee chairmen who do not make required reports. Strikers who act in an "unbecoming manner" or who refuse active committee work without good reason may be denied strike benefits according to the constitution. The national union reports that local officers not infrequently find it necessary to fine members, in accordance with local by-laws, for attending meetings while under the influence of liquor, for insubordination, or the use of profane and abusive language.

Locals which do not send delegates to the national convention or present an acceptable excuse are subject to a stiff fine. From 1939 through 1949 the national convention telegraphed 23 skilled local unions to send delegates immediately or pay the $150.00 penalty. Convention delegates who neglect to attend full convention or committee meetings are required by the constitution to repay their local union for the time lost. Executive board members also are subject to fine if they do not attend conferences or fail to vote on appeals submitted to them. Upon missing a second conference without sufficient reason, they may be disqualified from serving as executives for two years. If they fail, refuse, or ask and receive permission not to vote on an appeal, their names and inaction are published in the union's monthly circular.[5] These penalty clauses, except the last one, appear to be only occasionally used.

Some constitutional provisions directly limit membership participation. Members who have not been in good standing for the previous 12 months may not be elected to any office, nor may men who refuse local office be selected as convention delegates. Furthermore, practice established long before the Taft-Hartley Act's passage excludes communists from union office.

[5] E. g., Executive John J. Fischer's name was published in Circular 246, October 28, 1937, as not voting on Local Union 13's appeal against a ruling by President M. J. Gillooly.

In sum, the AFGWU offers its membership wide opportunities for participation but relies formally more upon compulsion than upon attraction to insure actual participation. The formal bars to activity are of minor significance.

III. THE EXTENT OF MEMBERSHIP PARTICIPATION

Officials of many organizations, including unions, like to claim a high degree of membership participation.[6] There is little reliable statistical material on this question, probably because such data are difficult to secure. The experience of the AFGWU, the comments of many observers, and the author's own observations of many local union meetings all strongly suggest that participation, especially attendance, is much less than many union officials are willing to admit.[7]

Participation in Local Activities

Only indirect evidence is available on membership participation in the AFGWU local unions. From this information, however, a rough picture can be obtained of meeting attendance, turnover of officers, election of women to office, and membership of locals in city and state labor bodies. These factors either reflect or condition rank and file participation.

Meeting attendance: An estimate of the usual attendance at local union meetings can be developed by analysis of 395 votes taken between 1938 and 1948. Most of these votes were by craft although a substantial number cover the entire skilled division, and two cover the miscellaneous workers.

The proportion of the eligible members voting on the various ballots varied from 0 to 100 per cent. The no-vote ballot occured when the four members of a dying craft were absent when an agreement was presented for ratification. Between 21 and 60 per cent of the members voted in 92 per cent of the 395 cases studied. The 20 instances of votes of less than 21 per cent largely offset the 13 votes of more than 60 per cent. On the more important issues, higher votes were registered, indicating a greater effort of attendance. Analysis of 114 important ballots, *i.e.*, those on matters other than admission of individuals, reveals votes by 31 to 60 per cent of the membership in 75 per cent of the cases. On *all* issues, votes of 31 to 60 per cent of the eligible members occurred only 51 per cent of the times. It may be concluded that only rarely are more than three-fifths or less than one-fifth of the members in attendance at local union meetings.[8]

Leadership activity: The turnover among local officers affects the opportunities for rank and file members to become leaders. Available data on turnover is

[6] See "Top U. S. Labor Unions," *Life Magazine*, May 31, 1948, pp. 80–81.

[7] The material in this section is drawn from a detailed study of all of the union's convention proceedings and of its monthly bulletins and quarterly financial reports from 1939 through 1948.

[8] Data from the largest local of the Federation of Glass, Ceramic and Silica Sand Workers, CIO, an industrial union of comparable size, the flat glass industry, show that 47 per cent of the members attended at least one meeting in April, May or June 1947. During the third and fourth quarters of the year the proportion attending declined to 44 per cent. The average attendance at the weekly meetings of the FGCSSW is apparently less than the attendance at the monthly meetings of the AFGWU.

limited to the corresponding and financial secretaries, two of the 11 local officials elected annually. From 1939 through 1948, an average of 70 per cent of the skilled and 49 per cent of the miscellaneous worker *corresponding* secretaries were re-elected to serve the following year. Over the same period 72 per cent of the skilled and 56 per cent of the miscellaneous *financial* secretaries were re-elected. A comparison of 1938 and 1948 rosters shows a great change in names, however. Fourteen per cent of the skilled and 4 per cent of the miscellaneous *corresponding* secretaries held office in both periods. Eighteen per cent of the skilled and 1 per cent of the miscellaneous *financial* secretaries were officers in both years.

These figures suggest that opportunities for leadership are substantially greater in the newer miscellaneous division than in the older skilled locals. Since the war, however, the tendency to re-elect the incumbent miscellaneous officer, especially the financial secretary, has increased. It is possible that turnover in both divisions is greater in the other local offices (except the presidency) thus affording more opportunity for the ordinary member to play an active part.

Women as officers: Women members have gradually won their place in these offices. In 1938 women held only 1 per cent of both secretarial offices in the skilled division. By 1948 they held 3 and 4 per cent of the corresponding and financial secretaryships, respectively. In the miscellaneous divisions, in which women are far more numerous, women held 22 per cent of the corresponding and 11 per cent of the financial secretaryships in 1938. Ten years later they held 50 per cent and 42 per cent, respectively. Feminine participation in these jobs has notably increased. Because secretarial posts are so frequently awarded to women, these figures undoubtedly are not representative of their activity in other local positions.

Inter-union activities: Affiliation of the local with the city and state labor bodies is another indirect measure of membership activity. Data on affiliation by the subject locals is available from August 1944 through May 1948. These figures show that an average of 44 per cent of the skilled locals were members of either or both bodies. Among the miscellaneous locals, participation jumped from 29 per cent in August 1944 to 51 per cent in May 1946, but did not change significantly thereafter. The over-all average influenced by the earlier years was 42 per cent. The miscellaneous locals, which are substantially larger than the skilled units, appear to be somewhat more interested in inter-union affiliation and afford greater opportunity for their members to serve as delegates.

Participation in National Affairs

Material on the participation of individuals and locals in the affairs of the national union is more abundant. This information describes the part they play in the national conventions, elections to the national executive boards, national bargaining conferences, elections to national office, and voting on national issues.

Convention representation: Examination of AFGWU convention proceedings reveals that miscellaneous locals were more consistently represented in national convention than the skilled locals. From 1938 through 1948 an average of 80

per cent of the miscellaneous locals, as compared to 69 per cent of the skilled locals, sent delegates.[9] The greater size of the miscellaneous locals, (247 members as compared to 48 in the skilled locals in 1948) partly explains the difference. The fact that the miscellaneous locals were financed by dues rebates from the national office—whereas the skilled locals had to levy special local dues—may also have contributed to the difference.

Is there a real opportunity for the average member to become a convention delegate? The number of delegates increased from 223 in 1938 to 304 in 1949, while *employed* membership rose from 20,100 to 27,300. The number of delegates per local was consistently 1.3 in the skilled division but increased from approximately 1.6 in 1938 to 2.2 in 1949 in the miscellaneous division. For the union as a whole the individual had roughly one chance in 90 of election.

The practice of re-electing delegates reduces the opportunity for each member to serve, although it gives continuity to the delegate body and probably improves its performance. From 1938 through 1949 an average of 37 per cent of the skilled and 41 per cent of the miscellaneous delegates to any convention had attended the previous one. Of the 1938 delegates 16 per cent of the skilled and 11 per cent of the miscellaneous had attended the 1942 convention. Of the same groups, however, only 6 per cent and 2 per cent, respectively, had been present at the 1937 convention. These figures indicate that only the more aggressive and persistent spirits can hope to become convention delegates.

From 1938 through 1949 the miscellaneous workers were permitted each year to send 16 delegates elected in their separate national convention to the skilled workers' convention. An average of 69 per cent of these men were re-elected each year, despite the fact that 83 per cent of the positions were contested with 411 candidates seeking 176 posts.[10]

Women have gradually won the right to represent their locals in convention. In the 1938 meetings there were no skilled and only 3 miscellaneous division women delegates. In 1948, however, the members elected 1 skilled and 21 miscellaneous division women to serve.

Executive board membership: Local leaders also have an opportunity to become national executive board members. This privilege is safeguarded by constitutional provisions which prevent these officers from being concentrated in one section of the country or in a few locals. From 1938 through 1948 there were 660 skilled executive posts open. Some 1,536 men, counting each every year he ran, sought the posts. There were approximately 2.3 candidates for each vacancy. In the miscellaneous division there were 373 posts, 614 candidates, and contests for 67 per cent of the positions. There was an average of 1.6 candidates for each post.

Once again, re-election reduced the opportunity for new men to serve. Approximately 68 per cent of the skilled executive board members from 1938 through 1948 had served on the preceding board. In the miscellaneous division 60 per cent were re-elected members. Among the crafts in the skilled division there

[9] The FGCSSW attracted delegates from an average of 77 per cent of its locals in its biennial conventions from 1938 through 1948 (omitting 1946).

[10] There was no convention in 1945.

were significant differences in this practice. The chimney workers, one of the oldest crafts, now very weak, had the lowest proportion of re-elected executives, 26 per cent. Two new and small crafts followed with 33 and 43 per cent.

Contract negotiations: Representatives of the rank and file sit with the national officers to negotiate the union's national agreements. Usually, the executive board members are the only working members present, but not infrequently they are accompanied by special local representatives. From 1938 through 1948, 149 such assistants were permitted and used. Where several locals in a subcraft join together for special negotiations, these local representatives may constitute the entire bargaining group.

National leadership: The individual member obviously has only a slight chance of becoming a national official because the posts are relatively few; and, moreover, the incumbents are so frequently re-elected. Since its founding the AFGWU has offered 457 national positions to its membership.[11] During this period 631 men have sought them, producing a contest in one-fourth (26 per cent) of the elections. When the offices are examined in groups, a different picture emerges. Elections of national officers (president, vice president, etc.) have produced contests for only one position in seven (15 per cent). In contrast, two-fifths (41 per cent) of the individual elections for skilled national representative and three-fifths (59 per cent) for miscellaneous national organizer have been races.

Although contests for the position of national representative are frequent and although there have been a substantial number of races for other national offices, a victory by the challenger is rare. Only 9 national officers or representatives have ever been defeated when seeking re-election. Of all the incumbent national officials, 90 per cent of the national officers, 93 per cent of the skilled representatives, and 94 per cent of the miscellaneous representatives have succeeded themselves in office. Clearly, the major leadership posts are surrendered to "professional unionists"; they are not passed around among the rank and file. This point is further emphasized by the official history of the present international president who was elected international assistant secretary in 1916, first vice president in 1932, and president in 1940. In these annual elections covering 34 years he was never opposed for re-election.

Since 1940 the union has sent a total of 16 skilled and 6 miscellaneous rank and file delegates (in addition to the international president who is an ex-officio delegate) to the American Federation of Labor's annual convention. Vying for these posts were 47 skilled and 27 miscellaneous members. Only once during the period was a man elected who had held the post before. This position is an honorary one which is shared by outstanding rank and file leaders who have not become national officers.

Voting on national issues: The employed rank and file members are asked to vote on numerous issues including the acceptance of national agreements, strike authorizations, reorganization proposals, admission of members, election of skilled national executive board members, and other miscellaneous issues.

Several crafts still retain the right to ratify or reject all agreements negotiated

[11] In the early years multiple vice-presidencies and secretaryships were filled. These have been excluded from the data.

nationally;[12] the other crafts accept without a referendum most agreements negotiated for them. A tally of 22 such votes from 1938 through 1948 reveals the following picture: The largest of the voting crafts, the pressware department, balloted 11 times with an average of 51 per cent of the employed membership participating. The second largest group, the pastemold workers, voted 7 times with an average of 44 per cent taking part. Three other ballots involving two small groups brought out between 62 and 100 per cent of the members concerned. The last vote found absent all 4 members of the dying craft involved.

The union insists that the entire skilled division ratify any strikes proposed by one of the skilled locals. From 1938 through February 1949, 17 such votes were taken, all authorizing a strike. The proportion of members voting ranged from 19 to 45 per cent, and the average vote was 35 per cent. One year both the skilled and miscellaneous divisions were asked to forego strike benefits in case of a general strike. In approving this request 53 per cent of the skilled and 29 per cent of the miscellaneous group cast ballots.

Proposals for consolidation of the union's two divisions brought out larger referendum votes. When the reorganization plan was first submitted, 80 per cent of the skilled locals and 46 per cent of the membership voted, rejecting it. In the miscellaneous division, 77 per cent of the locals and 44 per cent of the members voted, also to reject it. When the plan was submitted to the skilled workers several years later, only 66 per cent of the locals and 33 per cent of the membership voted, again defeating the plan. After an intensive campaign two years later 92 per cent of the skilled locals and 53 per cent of the members voted, this time to accept the program.

The most frequent subject upon which votes are taken at the local level is the admission to the trade of individual workers who have not completed their apprenticeship under the union but have acquired their skill outside the trade or in non-union plants. In 281 such votes from 1938 through 1948 an average of 30 per cent of the employed membership took part. On the individual votes the participation varied widely, but the averages by craft for the period show remarkably little variation. The lowest average vote, 26 per cent, was registered by one of the newer crafts, the machinists' department, which was asked to vote 80 times. The highest vote, 67 per cent, came in an old craft which voted only twice.

The AFGWU's system of voting on skilled national executive board members makes it impossible to determine the proportion of the membership voting, except in four of the crafts. These fortunately include the two largest groups, the mouldmakers and pressware workers. From 1938 through 1948 an average of 43 per cent of the members of these crafts voted. The individual votes ranged from 30 to 82 per cent. The mouldmakers voted 44 per cent, the pressware workers 43 per cent, and the pastemould makers 39 per cent of its membership. The top-of-the-stove ware workers, a new, small group, voted 66 per cent.

The votes on certain problem issues show interesting but perhaps not signifi-

[12] If the agreement is a general one involving all crafts, and especially if it has been consummated with the help of a federal mediator, this practice is not observed.

cant contrasts. When asked in three different years whether or not to suspend a regular assessment to support the union's death benefit program, 41 per cent of the membership came out to vote. In 8 cases in which the problem was to sanction or forbid the consolidation of two locals, or the division of a local into two units, only an average of 31 per cent voted.

When asked to approve special relief for strike victims on two occasions, an average of 37 per cent cast their ballots. On the very controversial issue of sanctioning a third shift in certain plants of the industry, 48 per cent of the members came out in 12 voting sessions (giving approval in only 4 cases). The question of whether or not to work on Saturday mornings came up in 8 cases and drew an average vote of 50 per cent of the membership. In a sharp contrast that was not surprising, only 21 per cent of the general membership was interested enough to vote on the one reinstatement case of the period.

So little comparative data are available that it cannot be said with assurance that membership participation thus shown is high or low. A usual local union attendance of from one-fifth to three-fifths of the members is probably good. The actual opportunities for members who wish to be local leaders are probably adequate, especially if the members have the patience to wait a few years. Women are taking an increasing part as officers in some, and possibly most, local offices.

Outstanding local leaders, including a few women, become convention delegates each year. Some of these same persons, and others, are selected as national executive board members and special representatives. Opportunities and participation narrow at this level. An even more select group of men run for national offices, and from this group a small number are chosen for "professional" union careers.

Voting activity varies, depending upon the issue involved. Ratification of agreements and basic reorganization plans may bring out a majority of eligible voters. Strike authorizations attract only slightly more than a third of the members, and admission of individual members interests less than a third. Election of skilled national executive board members leads more than two-fifths of the members to vote. Mild miscellaneous issues attract from 20 to 30 per cent, while controversial issues may atrract to the polls from 40 to 50 per cent of the eligible members.

IV. POSSIBLE CAUSES OF LOW PARTICIPATION AND CONCLUSIONS

There are many reasons for low membership participation in unions and other organizations. The problem is not confined to labor unions but reflects aspects of social psychology common to many groups. Even in national elections many voters stay at home. The 1940 and 1944 presidential votes were estimated at approximately 60 per cent of the possible maximum,[13] and in 1948 only 52 per cent of the eligible voters went to the polls.[14] Protestant churches estimate that

[13] P. H. Odegard and E. A. Helms, *American Politics*, p. 731.

[14] D. D. McKean, *Party and Pressure Politics*, p. 82, and F. A. Ogg and P. O. Ray, *Essentials of American Government*, p. 123, footnote.

only 30 per cent of their members attend Sunday School and church services on any one Sunday.[15]

The "card carrier," like the uninterested voter or church member, finds it much more convenient to stay at home, or if he attends meetings, to sit back and not take part. Many of these members have never been completely sold on unionism. Some of them have been forced into the organization by the union shop and others by social pressure or persistent but unskilled organizers.

Other members, especially in the large units such as the miscellaneous locals of the AFGWU, may find the labor organization just as big and nearly as impersonal as the factory. They may still feel an insignificant part of a big machine which apparently functions just as well without them as with them. Furthermore, members usually have many other calls on their time, especially if they live in a large city. They may even work on a second or third shift and thus be unable to attend.

The meetings themselves may not attract many members. Union halls are not infrequently dingy, poorly ventilated, inadequately lighted and generally uncomfortable. Rank and file leaders with little if any organizational training may let the meeting drag or drone mechanically through a deadly routine which presents few chances or real encouragement for fresh views from the floor. Women members with heavy home duties, especially, may not find attractive a visit to the rough-hewn masculine evening meeting of the local union. Nor may the Negro members, relatively few in the AFGWU, be encouraged to attend meetings completely dominated by their white union brothers.

Members of the AFGWU appear to take a somewhat more active part in their union than do members of many other labor organizations. If this is true craft union tradition, the large number of issues upon which the members are asked to express themselves and the continual pleas of the national officers for an active membership may be causes.

There is one major opposing factor which may tend to reduce participation. The industry carries on national collective bargaining which separates the local union and individual member from some of the most vital union problems which affect him. When bargaining is conducted locally, interest may run high over the selection of negotiators, formulation of demands, taking of strike votes, and ratification or rejection of agreements. The present union asks its members to do all of these things, but at set times of the year with a minimum of emotional appeal. The level of participation achieved has been accomplished despite this important factor.

This field of membership participation awaits further study. Inadequate membership participation is at least as extensive as the general public fears. The causes of such low participation need to be laid bare and programs established to reduce or eliminate them. The vitality of major organizations of our society is involved.

[15] Letter of August 17, 1949 from Inez M. Cavert, research assistant, Federal Council of Churches. The First Baptist Church of Toledo, Ohio, with a popular minister attracts 32 per cent of its general and 38 per cent of its active members. Letter of August 8, 1949, from the Reverend Milo C. Sawyer.

COMMUNICATION

EMPIRICAL TECHNIQUES IN INDUSTRIAL RESEARCH: THE METHODS OF P. S. FLORENCE

The work of P. S. Florence presents an individualized combination of the economic theoretician and empiricist. In the agitated atmosphere between the exclusive theorists and the exclusive empiricists that has characterized economic inquiry over the past twenty years, his studies comprise a sustained effort to achieve some working medium between the tools of inductive and deductive analysis. The econometric work of which Florence's is representative has been engaged in the efforts of gathering, refining and transforming the available data; applying an inferential test to some theoretical formulation wherever possible, and retaining the results of incomplete or inadequate enumeration in the hope that further inquiry will fill the gaps of some particular problem.

Professor Florence has been at the University of Birmingham since 1929, after lecturing at Cambridge, and is presently Dean of Faculty of Commerce and Social Sciences. He is one of England's most prominent economist-statisticians, serving often as consultant, as he did in 1940–1941 for the N.R.P.B. Beginning with his book *The Logic of Industrial Organization* (1933), Florence turned his interest to a study of the determinants of industrial location and efficiency, continuing the examination of these matters in a number of papers,[1] and in his recent volume, *Investment, Location and Size of Plant*.[2] The latter is unquestionably Professor Florence's most important work to date and an extremely significant contribution to the study of industrial location and investment. The results of his studies bear direct relevance to the neo-classical theoretical exposition of the relationship between industrial size and efficiency, between industrial location and efficiency, and between industrial monopoly and investment; and thus, it is also directly related to Alfred Marshall's treatment of the long-run industrial equilibrium through the operating balance of the forces of external economies and diseconomies, with much of Florence's closely reasoned analysis treating this explicitly. His work, in this wise, is exemplary of the most useful type of economic inquiry that may be servant to the intelligent guidance of entrepreneurial and public policy decisions.

The largest part of the study is concerned with the measurable characteristics of location pattern and investment intensity. For the examination of location pattern Florence introduces the concept of "localization," defined as the relation of an industry to the occupied population as a whole. Thus, a statistical index of localization of a particular industry is developed from a comparison of that

[1] a. "Economic Research and Industrial Policy," *The Economic Journal*, 1937.

b. "The Problem of Management and The Size of Firms," *The Economic Journal*, 1934.

c. "The Selecting of Industries Suitable for Dispersion into Rural Areas," *Journal of The Royal Statistical Society*, 1944.

d. "Planning and Industry, Some Obstacles to Mobility," *Transactions of the Institute of Town Planning*, Apr. 1944.

[2] Cambridge University Press, 1948; assisted by Dr. W. Baldamus.

industry with the distribution of industries as a whole. The principle difficulty with his coefficient is that its construct is circular in nature, such that in the case of a country that does not have a diversity of industrial production but where a few industries predominate in their contribution to the national product, one would find oneself comparing an industry series with a reference series, of which the former is a substantial part. This could involve serious error, and one must affirm that the coefficient of localization has apparently been developed for the British and American experiences and might not be advantageously applied, in its present form, to other countries whose industrial patterns are dissimilar.[3]

The relationship between the localization and size of plant of some 90 industries is tested in a 5 x 5 contingency table, and a visual examination of the table does not indicate the presence of any single linear trend, but there are three distinct concentrations of industries at certain combinations of plant size and location. The most frequent combination appears to be small plant with low localization, with the number of frequencies in this cell more than twice the number that would be expected in this cell with an hypothetical random distribution of frequencies throughout the table. Frequency concentration also appears at the combination of large plant with moderate localization, with the number of variates again double that which would be expected in a random distribution of the industries according to the two principles of classification; and a third point of concentration appears at the combination of high localization with medium-size plant, the number of industries in this group being just under double of that which would result in a random distribution. An independent test of the measure of co-association with Pearson's ratio of chi-squares gives a value significantly large. This relationship becomes more linear when seven of the more "rooted" industries are excluded from the sample. In sum, the general trend for England appears to be one where industries exceeding a moderate degree of localization favor medium-sized plants and industries characterized by low to moderate localization favor larger and larger plants.[4]

Investigating the relationship between investment and size of plant, that aspect of investment in which Florence is interested is essentially the Marshallian concept of instrumental fixed capital: ". . . all goods that aid labor in production which exist in a durable shape and the return to which is spread over a period of corresponding duration."[5] Aware that a number of previous efforts have been made to give metrical expression and precision to this concept, Florence examines a number of possible statistical definitions surveying the various advantages

[3] I was made aware of this particular difficulty while gathering and sifting data in France in 1949 for a study of French industrial organization.

[4] Florence notes that his findings are comparable to Dr. E. M. Hoover's conclusions on the correlation between size of plant and location as a whole for U. S. manufacturing industry analyzed in the N.R.P.B.'s monograph *Industrial Location and National Resources* (1943).

[5] *Op. cit.* (2), p. 89; the definition of "instrumental" is Marshall's, and the definition of "fixed" is J. S. Mill's.

and disadvantages of each. The index chosen is that of "horse power capacity per worker"; a measure that can be obtained from all U. S. Census of Manufactures and from the British Censuses of 1909, 1924 and 1930. There are a number of minor deficiencies[6] which must be accounted for in any statistical application of this measure, but suffice to say that of all the indices that might be amenable to the data at hand, that of horsepower capacity per worker, is the least inconsistent, ambiguous and subject to error.

In a direct application of the tool to a sample of 35 British assembly industries the study reveals a strong direct relationship between horsepower per worker and plant size; the greater its investment per worker, the larger the prevailing size of an industry's plants. A series of reliability tests are applied to the coefficient of association and chi-squared values in a 3 x 3 contingency table, and the results examined at a high statistical confidence level, appear very significant. The same tests applied to a large sample of U. S. assembly plants show almost as strong results in the same direction. Whereas, an application of the co-association and significance tests to samples of both British and American non-assembly industries yield no definable pattern until extractive industries and industries tied to a scattered location for technical reasons are eliminated; then a pattern similar to that of assembly industries is manifested for the American data, while the British non-assembly sample remains confused and insusceptible of description in terms of a correlation analysis. Professor Florence's interpretation of the relationship between investment in fixed capital and efficiency of the operating unit in terms of concepts of internal economies and increasing returns to factor inputs demonstrates clearly the interesting compound of empiricist and theoretician that serves as his general approach to economic problems.

The criterion of economic efficiency largely guides Professor Florence's attitude towards the question of encouragement or discouragement of increasing growth of the size of the producing unit: only if the differences in output from alternative methods of organization are not great, a difference in the social desirability of the small-plant or of the large-plant method might, in determining policy, be taken as over-riding the criterion of economic efficiency. Whereas, if the efficiency of the two methods are not essentially similar, the consideration of the superior efficiency should serve as the guide for decision making. But he is quick to affirm that any "last analysis" of efficiency by measuring the costs of large and small plants either in monetary terms or in terms of horsepower is certainly not feasible under our present state of knowledge.[7]

Some of the most interesting observations resulting from Florence's investigations into the relationships between industrial efficiency and physical location are those that bear upon the British Labour Government's efforts to relocate

[6] The index will have a pronounced bias, which must be recognized in advance, in attributing to industries not employing heavy equipment too low a capital investment, and in application, adjustments are required.

[7] In this light compare the different approach to the concept of efficiency favored in M. M. Mehta, "Measurement of Industrial Efficiency," *The Economic Journal*, Dec. 1950.

certain segments of British industry. His analysis points out that a considerable number of industries with small or medium-sized plants which, in point of plant size, might be suitable for rural areas, appear to require close localization together, and thereby limiting the availability of single plants of such industries for further dispersion. "The upshot is that the selection of industries suitable for dispersion in areas that are planned to remain rural requires careful analysis, and that probably not many industries will survive the ordeal."[8] As for the immediate considerations relating to whether or not the concerned governmental agency in the U. K. should encourage or discourage growth of plant size, he feels strongly that "... policy must exercise care in picking the industries in which to encourage the small plant ..."; and referring to champions of the small firm, "... these cries have definite policy leitmotifs distinct from that of efficiency such as stabilizing influence (including backbone); individuality; starting a career; and even adding to the pleasures of life."

One might object that the criterion of efficiency that Professor Florence sets runs the social risk of increasing monopoly control of important industries; in this circumstance he follows the logical extension of the judgement by insisting that it would be the obligation of the public agency to intervene, and through out-right control, counter-act monopolistic hindrances to increasing efficiency of production: "... if the trend toward more intense investment and the association of intense investment with large plants is accepted as making for efficiency, then public control to various degrees is indicated for certain industries."[9]

The application of the chi-squared and coefficient of contingency techniques to a body of data not amenable to an ordinary correlation analysis raises certain statistical issues. First, the study points up what many believe to be the greater versatility of the former method over the latter, wherein, with two or more principles of classification, an index of co-association and a significance test of the relationship are developed out of the same table, and where the ordering of the variates does not pretend to the precision of a correlation analysis. But the great difficulty of the method lies in the (necessary) assumption of homogeneity of the data, which ordinarily is controlled, a priori, through random sampling procedures, or ex post, with some test of homogeneity. Neither of these is explicitly treated in this study and the control for randomness of sampling procedures for the several U. S. and U. K. censuses employed appears to have been tacitly assumed.

Finally, the author's investigations throw light upon the difficulty inhibiting any effort to analyze the problems of industrial location and organization objectively. In addition to the over-powering influence of insufficient data, one is made aware of the presence of a number of questions dealing with the unambiguous interpretation of the existent data.[10] There is no question that serious

[8] *Op. cit.* 2, p. 129. See, Florence, *op. cit.* 1, c.

[9] *Op. cit.* 2, p. 156.

[10] For example, among others, there is the uninvestigated problem of the historical change over time in the distribution of plant sizes within an industry, and the problem of the shapes of "growth curves" of different industries. *Op. cit.* 2, pp. 156–157.

problems would have to be confronted concerned with the choice of the most efficient statistical techniques that could be employed to clarify any of the questions. Nevertheless, many of these problems might approach solutions if the governmental agencies interested directly or indirectly with industrial organization could be made aware of the close relationship that their decisions bear upon these questions; then the issue becomes, candidly, one of how much empirical information will underlie and support the formulation of these questions.[11]

One might imagine that the British Government's particular interest in these matters would encourage it to assemble this type of data at a very early date; that is, if the decisions to rationalize, control and relocate industries are to be guided by accurate information concerning the relevant variables. The results of Professor Florence's extended study into these problems serve to emphasize the pressing nature of the empirical issue.

University of Texas FRANK R. VARON

[11] The author appropriately emphasizes that what is needed at this stage is a thorough product analysis (such as the T.N.E.C. attempted in the monograph *The Structure of Industry*), and a thorough process analysis. Also see *op. cit.* 1, a.

BOOK REVIEWS

The Sociology of Imperialisms, and *Social Classes in an Ethnically Homogeneous Environment*. By J. A. Schumpeter. Translated by Heinz Norden. Edited and with an introduction by Paul M. Sweezy. New York: Augustus M. Kelley, 1951. Pp. xxv, 221. $3.00.

In this little book are presented the first English translations of two of Professor Schumpeter's most important "sociological" essays. I agree, however, with Dr. Sweezy that these essays represent integral parts of Schumpeter's general system and are not to be dismissed as casual side issues.

Dr. Sweezy, the editor, is, of course, a self-avowed and enthusiastic Marxist. I am not familiar with the original German text; but the editing would appear to be restrained and impartial, and the results are certainly well worth reading.

Superficial readers are apt to be more impressed by Schumpeter's use of many Marxist expressions than by his fundamental disagreement with nearly all of the Marxist position. I could wish that Dr. Sweezy had given a more prominent reference to Schumpeter's later, more explicitly critical evaluation of the Marxian theory of imperialism in *Capitalism, Socialism, and Democracy*. The truth of the matter is that, although Schumpeter was proud of being able to "understand" Marxism and always at pains to indicate the valid elements of the system and of Marx's intuition, he had little essential respect for it. As in his treatment of Keynes, his politeness is sometimes misleading. The reader may wish to compare these essays with my *Economics of a Classless Society* (American Economic Review, May 1949), written under Schumpeter's influence and criticism.

I have always felt it a pity that Schumpeter did not permit himself to go further in analysis of this sort. The present volume will, I believe, increase our regret.

University of Virginia DAVID McCORD WRIGHT

A Critique of Welfare Economics. By I. M. D. Little. Oxford: Oxford University Press, 1950. Pp. 275. $3.50.

For some years now, the writer has been predicting the imminent collapse of most of "welfare economics"—at least in its usual crude form. Samuelson, Reder, Scitovszky and many others have chipped away at the original structure and added modification upon modification. But up to now, the full effect of all these concessions has never been cumulated or given positive detailed statement. This is the task ably performed by Mr. Little in the present most refreshing volume.

The book consists of a careful orderly dissection of the elements of the subject and the conclusions to which it is supposed to lead. The author succeeds in de-bunking a tremendous amount of pretentious cant. It remains to be seen whether the strong prejudices which have so long protected welfare analysis will serve to suppress Little's book. It *ought* to be an integral part of every advanced theory course. The following passage (p. 257) will indicate the general line of criticism: "The position is still very weak. Individuals must still be

economic men, and goods and jobs perfectly divisible. Goods must not give rise to external economies or diseconomies of consumption. External economies and diseconomies must also be absent. Situations must not occur which make the fulfillment both of equilibrium and 'optimum' conditions impossible."

University of Virginia DAVID McCORD WRIGHT

Capitalism. By David McCord Wright. New York: McGraw-Hill Book Co., 1950. (Economics Handbook Series). Pp. xvii, 246. $3.25.

It is essentially to present economics to non-economists that this series was conceived and printed. A volume on capitalism by Professor Wright is a particularly appropriate vehicle for this type of communication. In the first place, Professor Wright earnestly believes that it is nonsense to talk or write about economics on the technical level alone. As a result, the layman is here provided with a discussion of capitalism in which there is mingled on almost every page both analysis of a fundamental nature and a consideration of matters that are of recognizable concern to the intelligent citizen. Thus, the potential reader is given a fairly strong motivation to work his way through the more technical pages. This is indeed something that is so lacking in much of the writing done in economics that it is small wonder that "... popularizers without technical competence, unqualified textbook writers, and sometimes even charlatans control too large a part of the market for economic ideas" (Editor's Introduction, p. xv).

A second important factor is closely related to this one. Professor Wright is not one of those social scientists who believes that the output of the scholar must be ruthlessly purged of any hint of personal values. On the contrary, it is unmistakably clear throughout the volume just where the author stands and why. Here, therefore, is none of that air of simulated indifference—as often as not an easily-pierced screen for beliefs just as tenaciously held as those of Professor Wright—that so frequently disgusts the more intelligent layman and repels the less intelligent. The implicit position of the author is that instead of going out of our way to shield from view the heart that we wear on our sleeve in any event, let us do our thinking sufficiently carefully that our *opinions* are worthwhile in and for themselves.

Not only, however, is the non-technical reader given the rare experience of reading a book on economics that is simultaneously scholarly, down-to-earth and openly opinionated. He is also provided with what is fairly close to a National Association of Manufacturer's outlook set in a genuine analytical mould. Professor Wright has gone a long way toward making the belief in capitalism respectable from an intellectual standpoint; the man who wants to believe in capitalism is furnished a much more consistent set of arguments than can be found in the "propaganda" to which we are daily exposed. This is not to say that Professor Wright has "proven" his case. After all, who does in a field such as this? It is still possible for a reasonable person to take the opposite view. But, what is more to the point, it now becomes much easier for a reasonable man to take this view.

Professor Wright's positive interest in capitalism, on the other hand, does not lead him to ignore the fact that there are important problems to be solved. He does not seek to convey the idea that the only things wrong with "The American System" are the result of misdirected efforts on the part of government to restrain or guide enterprise in the public interest. In short, he is optimistic but at the same time realistic, a rare combination in these times. And, what is even more remarkable, Professor Wright has somehow managed to absorb the realism of his teacher (Professor Schumpeter) without taking over at the same time the latter's pessimism.

But if this volume does outstandingly well one of the things the Economics Handbook Series has undertaken to do—communicate effectively with the layman—it assuredly does not do one other thing that the editor has promised, i.e., "present a distillate of accepted theory and practice" (Editor's Introduction, p. xv). Professor Wright does his thinking essentially at the frontier of our understanding in the social sciences. For evidence on this point the reader need only consider his excursions in the borderlands of psychology and sociology (to say nothing of his work in the fields of labor economics, business cycles, and monopoly as presented in the more technical writings of Professor Wright). Frontier thinking does not produce "a distillate of accepted theory and practice." There is much controversy over some of the things Professor Wright says most confidently. But one gets the impression that Professor Wright did not pay much attention to the Editor's Introduction anyway. He says his aim is ". . . first, to present some of the chief problems of the modern world and second, to stimulate the reader to further thought and effort on his own." The reviewer agrees with Professor Wright in thinking that this may be more important than distilling accepted theory and practice, and suggests further that Professor Wright has achieved *his* objective very well indeed.

University of Georgia HOWARD R. SMITH

Monopoly and Free Enterprise. By George W. Stocking and Myron W. Watkins. New York: Twentieth Century Fund, 1951. Pp. xv, 596. $4.00.

This is the third volume in a series by the same authors dealing with national and international problems of monopoly. The earlier volumes were *Cartels in Action* and *Cartels or Competition?* The present work starts with a discussion of the significance of economic organization, a brief history of industrial development and the concentration movement in the United States, a review of price theory and practice under various conditions of the market, and an analysis of basic factors in industrial concentration.

The authors then proceed to show in detail and by specific instances how the free play of competitive forces has actually been limited by the actions of business concerns. The topics analyzed include price leadership, basing-point systems, trade association activities, and changing trade practices. Governmental action to curb monopolies (including anti-trust policy and trade practice regulation) is discussed thoroughly, but the authors also show the effects of governmental actions and policies in stimulating monopolies, or at least in contributing to the

decline of competition. Weaknesses and vacillations in anti-trust policy, governmental policies with regard to the tariff, agriculture, and labor, the patent system, and incorporation policy are among the matters which come in for discussion in this latter connection.

The authors favor no indiscriminate attack on large-scale firms as such; they realize that concentration and monopoly are not necessarily the same thing; and they know that pure or perfect competition cannot be attained in practice. On the other hand, they believe that effective competition should be fostered. If competition is to be effective, the interests of the public must be protected and must prevail over those of private individuals. The things that facilitate economic progress and economize the use of scarce resources must get done. Competition may be effective, though imperfect, if only sellers are not too few and if they do not resort to concerted action. As an ideal, subject to some modification in practice, the number of sellers in a given field should be the largest number consistent with the economies of mass production and distribution.

On this basis the policy recommendations of the authors include a broader interpretation and more vigorous enforcement of the anti-trust laws, a modification of the Clayton Act with a view to preventing the merger of competing businesses, federal incorporation of businesses above a specified size if they operate in interstate or foreign commerce, the encouragement of increased standardization of commodities, providing consumers with official information concerning specific characteristics essential to intelligent selection of goods (grade labelling and other policies), governmental activities designed to make capital and labor more mobile, revision of the patent system, drastic revision of governmental policies dealing with labor and agriculture; and greater consistency in anti-trust policy. Such a comprehensive program for dealing with the monopoly problem is recognized as severe, but it is considered superior to the probable alternatives of business syndicalism and administrative regulation.

The main body of the book is followed by a report of the Twentieth Century Fund's Committee on Cartels and Monopoly, which presents a program to promote competition. According to the Committee, the Webb-Pomerene Act and the Miller-Tydings amendment to the Sherman Act should be repealed. The Robinson-Patman Act, legislation dealing with agricultural marketing agreements, and the Sherman Act itself should be amended or revised. Delivered pricing practices that are collusive in character and inhibit independence of action must be rooted out. Industrial concentration must be prohibited if it cannot be justified in terms of performance in the public interest. The Sherman Act should be revised to create a rebuttable presumption against the retention by any enterprise of a position that enables it to control more than a fixed percentage of the market for any product or related group of products. Section 7 of the Clayton Act should be made to cover acquisitions of assets as well as acquisitions of securities.

The appropriations and staff of the Federal Trade Commission should be increased. An executive committee on anti-trust policy should be set up to coordinate governmental activities in this field. Tariffs that shelter monopolies

should be reduced. State and local barriers to trade should be repealed or revised. The patent system should be revised, buyers should be protected through the provision of market information, and competition should be promoted by the removal of obstacles to the development of small businesses. Continual and extensive study of business organization and practices, market by market, is necessary. Several individual members of the Committee do not accept the whole report and dissents from individual policy recommendations are frequent.

Much of the analysis contained in the book is based on patterns of industrial organization and business conduct which prevailed before World War II, but this may be no disadvantage in view of the unsettled conditions which have existed in the last ten years. A large part of the analysis and many of the policy recommendations are familiar, and it is difficult for this reviewer to regard the book as a radical departure from the general run of books on the monopoly problem. A number of the policy recommendations, while sound enough in themselves, would be most difficult of attainment in practice. It is easy to say that, if we want to preserve the free enterprise system, tariffs should be reduced and governmental policies affecting agriculture and labor should be revised drastically. But it is also easy to say that, if men want to become angels, they should start growing wings. It may be possible that the authors overestimate the strength of popular feeling with regard to the monopoly problem. If an effective attack on the problem would involve such a comprehensive and far-reaching set of measures, it may be that many people would not care to see the attack made.

On the whole, however, this is an excellent book on the problem of monopoly. The authors are concerned primarily, as they should be, with the effect of monopoly on our economic system as a whole, and they present a wealth of material. Hundreds of actual monopoly cases are brought into the discussion and many are analyzed in great detail. The book is written in clear and interesting fashion, the analysis is logical and closely-reasoned, and the tone of the book is fair and moderate. It deserves to be read widely.

University of Florida RALPH H. BLODGETT

Catholic Social Principles: The Social Teaching of the Catholic Church Applied to American Economic Life. By John F. Cronin. Milwaukee: Bruce Publishing Co., 1950. Pp. vii, 803. $6.00.

This book is the work of a man who is at one and the same time able economist, practical sociologist, and learned and devout theologian. In it worldliness and other-worldliness go hand in hand. No social problem which may be said to have arisen out of American economic life has been omitted from consideration. Each is treated with detailed accuracy, in a cold matter-of-fact fashion. But all of them can be solved by applying sound principles; and these social principles envision the perfectibility of man.

Dr. Cronin recognizes the extreme difficulty of applying "social principles" to actual life. Yet, he says, the problems of applying them must be faced or the theologian may well be charged with uttering generalities which will be quickly

dismissed as impractical idealism. The author cannot be accused of uttering mere generalities, but the reader, though he may admire it, finds in the suggestions for the solution of the social problems much that the average person is bound to regard as "impractical idealism."

The book is divided into three parts: Part I, "The Christian Social Order"; Part II, "Social Principles in Economic Life"; Part III, "American Catholic Social Thought." The arrangement of Parts I and II is unusual. This portion of the book is based on selected papal encyclicals—particularly the social writings and addresses of Popes Leo XIII, Pius X, Benedict XV, Pius XI, and Pius XII. Each chapter is prefaced with extensive excerpts from these papal writings and addresses. This is the source material. There follows then, after the prefatory encyclicals, Dr. Cronin's interpretation of these documents and an adroit application of the principles embodied in them to American socio-economic problems. The reader asks himself—it is hoped with no impropriety—if Dr. Cronin is not unduly modest in surrendering so completely to others all claim to the broad social point of view which this book breathes.

A very good idea of the content and spirit of Dr. Cronin's work may be obtained from a few significant passages. In discussing "The Social Problem Today," Dr. Cronin has this to say: "The basic trouble with American economic life is that it is disorganized. It lacks a basic unity and coherence, an organic character, which would be expected in an ideal social order. The system as a whole is disorganized, because it is vainly expected that a sound and consistent order will result from conflict. Conflict is too often considered either desirable or unavoidable. On the production level, there is much strife between capital and labor. In selling and distribution, we have both competition, to such an extent that it is wasteful of resources and a source of economic insecurity, and concentration of economic power, leading to monopoly and closely held control of economic life. Above all there is the problem of depression and underemployment which plague modern economic life. This leaves all groups insecure: business, labor, farmers, financiers, and professional men. All these problems stem from an excessive reliance upon individualism and free competition, and the consequent reaction toward statism or struggles for power. Strife instead of cooperation for the common good, is enthroned as a social principle" (pp. 25 and 26).

A little further along this is to be found: "There are many roots to the social problem today, but its moral and spiritual causes are fundamental. A philosophy of secularism, materialism, selfish individualism, greed, avarice, limitless ambition, and denial of social interest is bound to make society unhealthy. . . Hence we need spiritual and moral reform as the foundation of a soundly organized economic life" (p. 27).

Dr. Cronin offers ". . . in a nutshell the foundation of Catholic social theory": "Under God, man is the center of the universe. Man has an inner dignity, based on his nature, origin, and destiny, which all must respect. This nature is the immediate source of rights and duties. It confers upon man an aura of sacredness which is not shared by animals of the field or by purely material things.

"But man does not live alone. To realize purely his powers and aspirations, he must live in the society of his fellow man. This fact, to a degree, modifies the rights and duties which spring from the nature of the individual. It also adds new rights and duties" (p. 73).

Following a chapter on "the social virtues" is a chapter entitled "Unsound Philosophies of Economic Life" (p. 133). Here is treated the philosophy of individualism and "its inward nature," "the economics of competitive individualism," "economic dictatorship under individualism," "socialism," and "non communist statism." None of these systems "pass muster in the light of human dignity, the nature of society, the purpose of economic life and the demands of justice and charity" (p. 164).

Chapter VI is devoted to communism. The theory of communism is ably expounded. Communist tactics, Soviet communism, world communism, and communism in the United States receive careful consideration. In "An Appraisal of Communism" (p. 192) Dr. Cronin points out the fallacies of communism when tested by Catholic social principles. In his summary at the end of this chapter (p. 197) he makes the following suggestions: "To the extent that communism is a diabolical attack on God and the Church, weapons of prayer and penance must be used . . . "Where communism grows through military and political means, it must be contained through the united action of free nations . . . To the extent that communist influence is achieved by propaganda, the answer is the presentation of twofold truth; the facts about life under communism and the disparity between its promises and achievements; and the real achievements of free men, in spite of all their imperfections and failures."

The first six chapters are designed to point up the failure of modern economic life. "We have fluctuated between two extremes: the anarchic diffusion of power under an individualism which denied the social nature of man; and the extensive concentrations of power under finance dictatorship and statism" (p. 213).

Chapter VII presents a positive Catholic program for "The Ideal Social Order"; and here the book reaches a sort of climax. To review this chapter adequately in a brief space would hardly be possible. The ideal social order would rely neither upon chaotic individual competition nor upon concentration of power. Rather common interest groups, quasi public in nature and with quasi-legal rights would minimize the competitive struggle and also take over many of the functions that have gradually come to rest in the hands of the state. The functional organizations would not displace free associations, such as labor unions, but supplement them. Dr. Cronin works out in a minute detail how these so-called "Industry Councils" might function in American life and offers in tabular form an "Outline of Industry-Council Plan" (p. 247).

The chapters which follow deal with the problems of capital, labor, and property, offering specific programs, and with the proper place assigned to the state and the church in economic life and social reforms. Part III is given over to American Catholic social thought. Particularly intersting in this last section is the discussion of distributism and the cooperative movement and Catholic rural philosophy.

In his preface Dr. Cronin says, "This work is offered for the careful consideration of men of good will, of all faiths, who may wish to know the ideals of our Church" (p. xv). "Men of good will and of all faiths" have much for which to thank Dr. Cronin. He has written a moderate, scholarly, informing book.

University of South Carolina A. L. GEISENHEIMER

Basic Economics, A Book of Readings. Edited by Arthur D. Gayer and Others. New York: Prentice-Hall, 1951. Pp. vii, 624. Paper, $2.95.

The "Report of the Committee on the Undergraduate Teaching of Economics and the Training of Economists" published by the American Economic Association in December 1950 shows that about three-fourths of our colleges use collateral readings in their introductory courses in economics. These consist of assignments in other textbooks, in contemporary books, pamphlets and reprints on economic subjects, in economic classics, and in current periodical and newspaper literature.

Gayer, Harris and Spencer have fulfilled a long-felt need by combining all these types of outside reading materials in one handy, low-priced volume. Among the 116 articles, essays, and excerpts one finds contributions by the world's greatest economists, past and present, such as Adam Smith, Thomas R. Malthus, David Ricardo, William Stanley Jevons, Karl Marx, Alfred Marshall, Henry George, Wesley C. Mitchell, Joseph A. Schumpeter, John Maynard Keynes, and many others. Included are also excerpts from several textbooks in the field, such as Bowman and Bach's, Samuelson's, Seligman's, and Boulding's. There one finds the viewpoints and interpretations of such public agencies as the Joint Congressional Committee, the Chamber of Commerce of the U. S., and the U. S. Treasury Department, of such private firms or associations as the National City Bank of New York, the Republic Steel Corporation, the National Association of Manufacturers, and the American Medical Association, and of such outstanding men in fields other than economics as President Truman, Pope Leo XIII, and Albert Einstein.

The book is subdivided into 14 major sections, namely, Nature and Method of Economics, Industry and Agriculture, Consumer Problems, Price and Cost Analysis, Competition and Monopoly, Income Distribution, Labor Problems, Population and Social Welfare, Monetary Economics and Finance, National Income and Economic Growth, Business Cycles and Employment, Public Finance and Fiscal Policy, International Economics, and Economic Ideologies and Planning. In the selections included under each heading the authors are given the opportunity to speak for themselves without lengthy comments by the editors save brief introductions.

Gayer, Harris and Spencer have taken pains to include, whenever possible, selections which would explain complicated issues in terms easily understandable to the beginning student. Even freshmen cannot fail to comprehend such problems as the maldistribution of wealth and some of the economic reasons for it when they read Robert L. Heilbronner's "Who are the American Poor?"; the purposes and functions of money and exchange as illustrated in R. A. Radford's

"The Price System in Microcosm: A P.O.W. Camp"; or even the more complicated problem of indifference curve analysis as set forth in simple terms in Milton H. Spencer's "Demand Analysis: Indifference Curves." Some of the material included, however, such as Schumpeter's discussion of monopolistic competition or B. A. Margo's "Break-Even Analysis," is probably still too difficult for the beginner without further clarification by the instructor.

Usually both sides of controversial issues are presented. Thus, for example, students will find arguments for and against protective tariffs, for and against labor unions, and for and against the proposed National Health Insurance Program. Occasionally, however, the choice of selections included seems somewhat biased: Kenneth E. Boulding, Mark Sullivan, and the National Association of Manufacturers, for instance, were given the chance to attack the New Deal Farm Program while no arguments in its defense were presented.

While the parts of this book which are to be assigned at any particular college or university as outside reading material for an introductory course in economics will, of course, depend upon the textbook as well as upon the particular approach of the individual instructor, no teacher in the field should fail to consider it. It is the reviewer's belief that this book will prove useful in stimulating students' interest in economic problems and that it will find wide and general appeal for the purpose for which it is intended.

University of Alabama HARRY SHAFFER

Economic Survey, 1919–1939. By W. Arthur Lewis. Philadelphia: Blakiston Co., 1950. Pp. 221.

Professor Lewis, who is Stanley Jevons Professor of Political Economy in the University of Manchester, has written a condensed account of the economic history of the ebullient period between the two world wars. The book was developed out of lectures given in the years 1944–47, and it is saddening to note that even before the book was printed the world had a very good start toward shattering Professor Lewis' hope that "... we and our children shall not have the privilege of seeing such exciting times again."

Part I is concerned with an over-all chronological survey of the principal economic developments of the period 1919–1939. In Part II, Professor Lewis is concerned with the national policies of the United Kingdom, Germany, France, the United States, Japan and Soviet Russia during the same period. The outstanding experiments carried on in attempting to meet the economic problems of these individual countries during the 20 year period (such as the Blum experiment and the New Deal) are presented in summary form. Part III attempts to view the period in perspective and bring out significant trends.

Although Professor Lewis makes no attempt to reach hard and fast conclusions concerning causes of economic progress and stagnation, he does seem to emphasize at least three points. First, "... good intentions are no substitute for sound economic analysis" is a recurring theme. Second, the author stresses on several occasions the premise that governments today can neither overlook the "wonderful virtues" of the price mechanism nor stand idly by and allow economic

deterioration as in the thirties. Finally, two complete chapters are devoted to the idea that "... to return to the jungle of the thirties in matters of international currency and trade policy is to return to the inevitability of war."

The book was not written for the professional economist, but it should prove interesting to the economic specialist who does not have the time for intensive study in the field of economic history. The author has provided a surprisingly large amount of statistical detail in the text as well as a short statistical appendix, and a fairly comprehensive bibliography is included. For a brief, concise reference book outlining the economic history of that "... age of dislocation and age of experiment" the book will be a welcome addition to the professional library and helpful as well as interesting to the layman student of economic history.

Centenary College WOODROW W. PATE

The Principles of Economic Planning. By W. Arthur Lewis. Washington: Public Affairs Press, 1951. Pp. 128. $2.50.

In a relatively short work, W. Arthur Lewis, Professor of Political Economy at the University of Manchester, has presented the case most effectively for economic planning in a mixed economy. The majority of the emphasis is placed on the problems which arise in government planning for the traditionally private sphere of enterprise.

Professor Lewis sets forth to prove that "fair shares for all" may be accomplished through economic planning in the traditionally private sector of business if the basic problems are recognized and intelligently approached. Through an evaluation of the planning done by the British Labor Government over a three-year period he argues for planning by inducement rather than by direction. He deplores the tendency of the Labor Government to place too much emphasis on the problems of nationalization and equitable distribution of income and at the same time disregard to a great extent the closely related problems of mobility and utilization of labor, foreign trade, and inflation, thus delaying the accomplishment of the desired goal.

The author presents six major steps of planning: (1) the preparation of a budget which estimates the national income for the coming year, and proposes its distribution between consumption, investment, and public expenditure; (2) the determination of action to be taken (whether to increase supply or decrease demand) based on shortages indicated by budgetary information; (3) the estimation of goals to be achieved from the action taken in the second stage; (4) the publication of the budget for public understanding and criticism; (5) the passage of legislation to approve and enable the operation of the budget; and (6) the actual operation of the budget toward achievement of the desired goals. It is in the first two stages of planning that the author recognizes the problems which are often approached through planning by direction when planning by inducement would be preferred.

In the first two chapters of the work, there is set forth the case for and the goal of economic planning. After a discussion of maldistribution of income as

related to inequality of opportunity and unequal distribution of property, Professor Lewis presents a detailed analysis of the problems of planning in the traditionally private sector of the economy which are often superficially considered by some socialists. It is in the discussion of these problems—money, investment, foreign trade, mobility, and private enterprise—that the logical and generally sound economic thinking of Professor Lewis seems to assure the feasibility of his principles of economic planning. The author implies that the underlying approach to each of these problems must be basically an application of the scientific method if a solution is to be achieved that will result in the predetermined goal—"fair shares for all."

The approach to the problem of economic planning is somewhat similar to that presented by James Edward Meade in *Planning and the Price Mechanism: The Liberal Socialist Solution*. The two works, both brief, provide an insight into the trend of economic thinking in Britain and a means of evaluating British Socialism.

The book is highly readable, comprehensible and logical from the standpoint of both the layman and the economist.

Sullins College BENJAMIN F. WHELESS

The Balance of International Payments of the United States, 1946–1948. By United States Department of Commerce. Washington: Government Printing Office, 1950. Pp. viii, 275. Paper, 55¢.

This is the third in the series of balance of payments studies which began with the publication of *The United States in the World Economy* in 1943, and was followed by *International Transactions of the United States During the War, 1940–1945*, in 1948. The 1943 study which covered the interwar period was under the direction of Hal Lary, who is now with the Economic Commission for Europe. His predecessor as chief of the International Economic Division of the Department of Commerce, Robert L. Sammons, has maintained the high standards set by Mr. Lary in the second and third studies in this series which has come to be a part of the standard equipment of students of international economics all over the world. Like its predecessors, *The Balance of International Payments of the United States, 1946–1948* is much more than a presentation of balance of payments statistics. It is an analysis of the movements of the principal items in the U. S. international accounts and seeks to explain these movements in terms of internal and external economic developments.

The introductory chapter deals with the nature of the postwar transition period and the problem of world disequilibrium. The authors believe that a lasting equilibrium will require not only the restoration of the foreign economies injured by the war but also "... an increase in the productivity of labor nearer to the level reached in the United States." If there is a persistent tendency for the equilibrium to be disturbed by a faster increase of exports by the United States, the reason can only be a more rapid increase of productivity here (p. 18). While this statement is frequently made by economists in this country and abroad, it is certainly contrary to international trade theory unless it is clearly

shown to be based on the assumption that countries do not adjust their exchange rates in line with new cost relationships or that the structure of their industries is not sufficiently flexible to adapt their production to new conditions abroad. This statement also overlooks the very real possibility that money wages in the United States may keep up with changes in productivity.

Chapter II analyzes the goods and services account but excludes interest on investments and unilateral transfers which are taken up in Chapter III, entitled "Financial Transactions." This arrangement is intended to point up the distinctions between "real" and "financial" transactions. The section on imports discusses the relationship between imports and domestic income and presents a number of charts showing actual and "calculated" imports for different classes of imports. This presentation would have been more useful had the authors included in their appendix a discussion of the derivation of "calculated" imports.

Two significant features of the chapter on financial transactions are worth special mention. First, the authors have presented an analysis of the relationship between earnings on direct foreign investments and on domestic investments. On the average, rates of profit of American companies operating abroad in 1946–1948 were about 3 percentage points higher than those of domestic companies. The second feature is a discussion of the contribution of the dollars supplied by U. S. direct investment to the world's supply of dollars (pp. 140–141).

Chapter IV discusses the international transactions of the United States by major foreign areas. The tables on transactions by areas are considerably more detailed than in the previous studies in this series. The Appendix provides a discussion of concepts and definitions, and the methodology and sources of data used in Department of Commerce balance of payments tables. It is important for the student to study the material since the Department of Commerce has made certain important changes in its balance of payments presentation which must be taken into consideration in comparing older series with current ones.

University of Virginia RAYMOND F. MIKESELL

Monetary Problems of an Export Economy: The Cuban Experience, 1914–1947. By Henry Christopher Wallich. Cambridge: Harvard University Press, 1950. Pp. xiv, 351. $5.00.

Although this is a study of a particular "export economy," it contains the analytical framework necessary for understanding the difficulties of all undeveloped areas whose exports—often a single raw material or foodstuff—furnish a high proportion of national income. Historical and descriptive material covering the period since 1914, when Cuba introduced its peso currency, take up about two-thirds of the text. In the concluding chapters (XII–XV) the author examines "the forces that govern the Cuban economy and attempts to bring modern economic analysis to bear upon the peculiarities of a monocultural export economy."

Since so little Cuban economic history is known to English readers, Wallich's chapters in monetary history contribute a desirable and highly satisfactory

survey of a major aspect of the country's economic development. The sources are primarily current publications and government reports, and it remains for other scholars to see whether new and significant data still repose in the archives. There is little in this work to support "our Cuban colony" theme; there is much to show that, over the years, Cuban dependence on the American market for sugar and the lack of an independent monetary system have produced advantages as well as disadvantages for the national economy. Probably the Platt Amendment has had less influence on Cuba's destiny than the tariff lobby of American cane and beet growers.

The "strategic factors" in the Cuban economy are the three pairs of variables common to all capitalistic systems: investment and saving, exports and imports, government expenditures and tax revenues. In Cuba's case, exports constitute "by far the most important of the independent variables"—government expenditures exceed private investment and exports (at the 1947 level) are three times greater than government expenditures. Relatively, Wallich believes, exports play a larger part in shaping the Cuban economy than investment in the American. The implication that stability (full employment) can be achieved only by maintaining a high level of exports leads to a consideration of the various means of counteracting fluctuations in the foreign demand for sugar and the notorious volatility of its world price. On these points the analysis is closely reasoned, comprehensive, and, I think, theoretically correct. Exchange control and devaluation offer prospects of alleviating extreme cases of distress; hence the importance of the Cuban central bank provided for in the Banking Act of 1948. But there are no panaceas in any case. If Cuba should achieve through agricultural diversification a reduced dependence upon a single export or, through industrialization, a less insistent demand for imports, it would then face the problem of mature countries—that of maintaining domestic investment.

Duke University ROBERT S. SMITH

The Dollar Shortage. By Charles P. Kindleberger. New York: The Technology Press of the Massachusetts Institute of Technology and John Wiley & Sons, 1950. Pp ix, 276. $4.00.

The author of *The Dollar Shortage* has discussed a large number of controversial issues bearing upon current international economic conditions in this relatively short book of 276 pages. In addition, he has cited in footnotes the writings of many others on these problems so that the reader has a ready reference to the relevant material of both those who agree with and of those who disagree with Dr. Kindleberger. Both groups will find this a valuable book to study.

Dr. Kindleberger is at his best in his description of post-war economic conditions and in his demonstration that the post-war dollar shortage can not be cured by what he terms "classical" methods. In this position, he would have the support of most of the economics profession, although as he points out there are several with other convictions. Those of us who agree with Dr. Kindleberger would be forced to admit, however, as he does, that the post-war dollar

shortage *could* have been cured by "classical" methods, but at a political and social cost which we were not prepared to pay.

Dr. Kindleberger maintains that there is a tendency toward a long-run and/or permanent dollar shortage, because there is a "... tendency to secular stagnation in the United States relative to the rest of the world" (p. 170). Yet, as he points out in his footnote on page 101, the theory of secular stagnation in the United States is not accepted by everyone. In addition, he does not offer convincing evidence that there will be relative stagnation in the United States in the future. More empirical or historical evidence is necessary. In discussing the appropriate level of foreign investment (p. 94) and in asking whether the dollar shortage exists (p. 177) Dr. Kindleberger excludes the period of the 1920's, the war period, and the period after World War II down to 1948 (p. 94) as abnormal. However, as proof of a tendency toward a secular dollar shortage, are the periods 1919–21, 1929–39, and 1945 to date any more normal?

Dr. Kindleberger offers, as evidence of United States' insistence on exporting, the pressures exerted for expanding foreign sales through the European recovery program. However, similar pressures are exerted when large governmental programs for domestic expenditures are instituted, so that the pressure should be interpreted as an attempt to exploit the best long-run market and not a drive for exports as such. At the present time, the drive by United States exporters may be greater than that of exporters in other countries, but this in turn is due to a number of causes, at least some of which are temporary.

Dr. Kindleberger argues that a *country* gains from exports because certain *firms* in the export business have decreasing costs (p. 20). Therefore, it might even be desirable to give exports away (p. 189). The limited application of this give-away program, both from the point of view of the stage of economic development in which the country finds itself and the period of time during which it can continue, is obvious.

Since the present dollar shortage is not due to any one cause, it must be attacked on several fronts. Dr. Kindleberger has outlined some of the remedies and has shown why some of the proposed remedies will not be a complete cure and why some proposed cures will only aggravate the condition. In this, he has made a valuable contribution.

Also, he has shown why the causes of the dollar shortage which were most important a short time ago are not the most important today. If we are to be good political economists—and as Dr. Kindleberger points out on page 271, we must be—our economic theory must be developed to the point where we can apply it to changing and changed economic conditions.

American Embassy, HOYT PRICE
Brussels, Belgium

A Discussion of Money. By W. A. L. Coulborn. London: Longmans, Green, and Co., 1950. Pp. xiv, 356. $3.50.

This book is a revision of *An Introduction to Money* published by Professor Coulborn in 1938. It, like the first edition, has a double aim—"... to be of serv-

ice to the student of economics and to the general reader who wishes to enquire how the monetary system affects himself and his fellow men" (p. v). The author seems to have achieved this double aim in an admirable manner through a combination of brevity, clear thinking and charming style. Replacing two characters, Prof. Hoot and Dr. Coot, who present their own and often divergent ideas of monetary terms and problems in the first book, are Prof. Harp and Dr. Carp, the "... former representing an academic and theoretical point of view and the latter a practical 'City' standpoint" (p. 1).

The book provides the reader with the usual definitions, the nature, the services and the origins of money. A brief but adequate survey of monetary institutions for the beginning student and the casual reader is an important part of the book. Monetary theories as developed by Dr. Irving Fisher (*The Quantity Theory*) and Lord Keynes (*The General Theory*) are presented at some length. The author pays his respects to Lord Keynes when he contends that Keynesian analyses account for most features of the trade cycle. "Keynes showed that the state of employment depends on three things. These he called (i) the propensity to consume, (ii) the schedule of the marginal efficiency of capital, and (iii) the schedule of rates of interest" (p. 94).

The student of monetary history will find a summary presentation of monetary standards which have been used at various times and the reasons for their abandonment. To the devout believer in the infallibility of the Gold Standard the author, more or less in passing, mentions what the atomic age could conceivably do to the supply of this metal. "The atomic scientists, while not engaged in devising means whereby the world may be blown to pieces, have manufactured gold. The alchemist's dream, and the 'sound money man's' nightmare have come true" (p. 124). That such production costs are tremendous is also emphasized.

Of especial interest to the present day reader is the author's comment on inflation. It is realized now that perhaps England should have followed a course of devaluation after World War I rather than deflation with its attendant economic strains. The author is of the opinion that nations will be more prosperous and their economic systems more successful if they are subject to a continuous condition of moderate inflation (p. 172). The ever present problem is, of course, to keep this inflation under adequate control.

The central banking systems of England, France and the United States are compared and contrasted. Perhaps the section on the Gosbank (Gosudarstvenny Bank) in the U.S.S.R. is of more current interest than some of the more familiar institutions. The Gosbank, which has several central banking functions even though it is not primarily a central bank but rather the key to Soviet economic planning, illustrates how even the most rabid opponents of capitalism must have some of the institutions common to its operation. The newer institutions affecting international monetary policy such as the International Monetary Fund and the work of the Economic Recovery Program are described. Of the latter the author states "The American action in providing thousands of millions of dollars for relief and reconstruction in Western Europe remains the most aston-

ishingly generous piece of policy in the human record. Similar things have been done for allies in time of war, but in time of peace, never" (p. 312).

The author ends on a somewhat pessimistic note for the British people by contending that while they may look forward to better living standards than ever before their relative position among nations will never again be so favorable as it was before the two World Wars (p. 332). Some of these digressions may seem out of order in a discussion of money but the author makes them an interesting and instructive part of the whole picture.

This book is more than a treatise on money. It offers the reader an Englishman's interpretation of monetary history and the effects of policy and practice on the economy and politics of his country. The revised edition has 26 tables and five illustrations not included in the first edition of this book. References at the end of each chapter are generous in number and up to date. The author, while writing from the point of view of an Englishman, mainly about the monetary experiences of England and English institutions, is now Professor of Economics, Oglethorpe University, Georgia. As such he should be able to observe more closely and clearly the monetary institutions in the United States.

Webber College PALMER T. HOGENSON

Public Finance: Principles and Problems. By M. Slade Kendrick. Boston: Houghton Mifflin Co., 1951. Pp. xii, 708. $5.25.

At the end of World War II the teacher of Public Finance had a very limited list of acceptable titles from which to choose a text. The few available books conformed largely to the orthodox pattern which placed heavy emphasis on taxation and gave relatively little attention to expenditures and fiscal policy. Since then several of those books have been revised to give more attention to the newer theories and practices in the field, but they remain predominantly orthodox in their approach. In the meantime, however, several entirely new texts have appeared which deal with the subject in the Keynesian manner. They shift the primary emphasis to expenditure policy and fiscal problems, in one or two cases relegating taxation to a distinctly minor position.

Professor Kendrick has written the first completely new text in the orthodox tradition in the past ten years. Although in the preface he recognizes the need for "a proper balance between the traditional approach and the new one," the organization of the book shows very little influence of the new approach. Twenty-one of the 32 chapters deal exclusively with taxes. In addition, three of the chapters in the Fiscal Policy section are concerned primarily with the revenue problem; they discuss model tax systems for the federal, state, and local governments and their interrelationship. Together, these 24 chapters take up about 550 of the approximately 700 pages of textual material. There is heavy emphasis on the historical aspects of expenditures, taxes, and debts.

After two introductory chapters, the author deals with expenditures in three short chapters, covering about 50 pages. Very little attention is given to the administration of expenditures; the word "budget" does not appear in the

table of contents or in the index, and only the briefest passing references are made to budget problems.

In the large section on public revenues, five chapters are devoted to property taxation, three of them to general systems of property taxes and the other two to the taxation of railroads, utilities, forests, and mines. Forest taxation is especially emphasized, receiving 14 pages in the text and an appendix of five pages. Six chapters are given to the taxation of business, including the taxes on income, sales, and payrolls. Federal, state, and local taxes on personal income are covered in one chapter, although separate chapters deal with tax avoidance and capital gains. A chapter on tax administration and one on incidence conclude the section on revenues. Approximately 12 pages are given to the subject of tax shifting generally and about the same amount to the incidence of particular taxes.

Among the author's proposals for changes in the federal tax structure there is one which may be more drastic than he realizes. He proposes that the gift tax and the estate tax be integrated; this would increase the severity of the estate tax considerably. "*In addition,* (Italics in original) the heirs would pay up to the top rate of the income tax on the value of any property they received" (p. 597). True, he thinks that the top rates should be reduced, probably to 50 per cent, and indicates that some averaging might be used to offset fluctuating incomes. But if these provisions were made really effective (which would require far-reaching changes in the administration of the tax), they would provide more drastic treatment of estates than this country has ever seriously considered.

Public debts are covered in two chapters, the emphasis falling mainly on historical aspects and management problems. The author does not consider fiscal policy proper until the last chapter. In that he obviously is not able to give a comprehensive treatment of the subject. He does, however, give a good discussion of the choices available and indicates that economic realities impose obstacles to the attainment of the millenium through fiscal policy.

The book is well written; the author has a clear and lucid style which is excellent for a text of this kind. The organization of chapters is simple and logical; the exposition is clear and straightforward. At times the sequence is somewhat choppy because of the large number of historical references and the great many technical and minor matters which are mentioned. There are no bibliographies or reading lists, but the author is generous with footnote citations of sources and relevant works.

Duke University B. U. Ratchford

The Management of Bank Funds. By Roland I. Robinson. New York: McGraw Hill Book Co., 1951. Pp. vi, 425. $5.50.

This book is a well written text on the art of commercial banking practices and policies. The focus of the study is the individual bank. It discusses the issues of banking policy that confront the executive officers of commercial banks. The author attempts to bring together the traditional practices and accumulated experience of the banking profession to enrich the knowledge of college students.

The book has a clearly defined objective: "... to describe methods of achieving the profitable employment of commercial-bank funds consistent with safety." Thus, it eliminates the business problems of commercial banks such as promotion, personnel and accounting on the one hand, and problems of overall commercial banking policy and of the monetary system on the other hand. The text centers on the study of "protective" liquidity of banks, practices and policies of commercial-bank loans and investment, and the sources and uses of bank profits.

The author has incorporated into his book not only the scattered and largely oral traditions and rich experiences of bankers during the last twenty years, a period of dynamic changes in our economy, through the Great Depression to the emergence of huge public debt; he also makes use of the recent interest rate study of the National Bureau of Economic Research, showing its application to investment operations of commercial banks.

This book has developed out of a course in commercial banking practices and policies taught by the author at Northwestern University. The book, together with a collection of related cases available in mimeographed form, makes satisfactory text material.

Park College NORMAN SUN

Direct Placement of Corporate Securities. By E. Raymond Corey. Boston: Division of Research, Harvard Business School, 1951. Pp. x, 233. $3.50.

As the result of a rather careless wording of the Securities Act of 1933, a two-market system of security vending was created, the public and the private. Section 4(1) of the Securities Act of 1933 exempts from registration with the S.E.C. "... transactions by an issuer not involving public offerings." Neither Congress nor the S.E.C. has defined public offerings. The direct placement market, involving $\frac{1}{3}$ of corporate security flotations during the post-war period, is primarily concerned with *large* issues of *large* corporations purchased by *large* insurance companies. Many corporations, namely, railroad and utilities, are denied access to private markets because of competitive bidding requirements, and many investors are likewise denied the advantages of the private market because of the limited number of participants allowed in direct placement offerings. Both sides of the market are, therefore, the less competitive because of these and other factors. Unfortunately, this worthy thesis was all but overlooked by the author.

Part I of Professor Corey's valuable work, *Direct Placement of Corporate Securities*, consisting of nine chapters, contains an unsurpassed definitive treatment of the private market for securities. Part II, containing four chapters, includes a case study of direct placements by the Boston Edison Company, Continental Can Company, Standard Oil Company (N. J.), and Colorado Fuel and Iron Company. Part II, alone, would have constituted *raison d'etre* for this splendid work. The reader is taken "behind curtain" in these cases and introduced to the complexities of corporate finance in a thoroughly interesting fashion.

However involved direct placement procedures may be, a novice in the study of finance can readily follow Professor Corey's lucid treatment of this important area of corporate finance. Chapters VII, The Negotiation of Terms, VIII, The Lender-Borrower Relationship in Direct Placement, and II, Direct Placement As An Investment Outlet for Life Insurance Funds seem to be the outstanding pieces of work. Chapter IV, Corporate Financing: The Choice Between Private Placement and Public Distribution, includes an excellent treatment of such advantages in direct placement as the firm commitment, "tailor-made terms" (tailor-made to fit both parties), lower flotation costs, pre-payment savings, as well as other considerations pro and con.

The reviewer takes issue with Professor Corey on only one account. In chapter IX the author suggests that due to the shortage of good credit securities, insurance companies should be allowed by their respective states to supply equity capital, especially in view of the fact that liquidity is not a requisite for these companies. In that a substantial part of the reviewer's annual stipend is invested in such companies, it would appear the better part of wisdom, from his viewpoint, to have these enterprises remain creditors rather than owners of corporations, during the dynamic twentieth century, at any rate. Moreover, the insinuations that the large life companies exert undue control over management in cases of default of covenants (and perhaps at other times) would become a blatant reality, were such companies to elect the directors of said corporations. All of which would add a few more spades of soil to the corpus of the Sherman Act, already fairly well interred.

The book, thorough, clear, and well documented, exhibits only one slight fault, and that is a certain degree of redundancy, which may be altogether unavoidable.

Wake Forest College GAINES M. ROGERS

Industrial Sociology. By Delbert C. Miller and William H. Form. New York: Harper & Bros., 1951. Pp. xi, 896. $6.00.

The subject matter of industrial sociology overlaps with that of many well established fields. It is, therefore, not surprising that books on the subject have been written by specialists who saw the sociological implications of industrial history or economics, of labor problems or personnel administration or industrial engineering, of psychology or even social philosophy. It is fitting that the first textbook to bear the title, *Industrial Sociology*, should be written by sociologists with experience in industry. The authors do not overload the discussion with every term and concept of sociology, but they do not forget they are sociologists: they keep clearly in mind a few basic sociological ideas such as formal and informal group relationships, status and role, class and power structure, social mobility and social change.

As a textbook the volume has many admirable features. For the student there are convenient outlines of every chapter, illuminating introductions, transitions and summaries. Narratives and incidents showing principles in operation give concreteness; summaries of many studies, though sometimes perhaps in too great detail, make the book useful where the reader does not have elaborate

library resources. For students and teachers there are suggestions for field study, observations and interviews. Indeed, one series running through many chapters is so complete that a class—given a cooperative management, a patient group of workers and a diligent and able group of students—might well produce a valuable contribution to the growing number of studies of specific manufacturing plants or business organizations. A novel addition to each chapter, "Research Gaps," a brief listing of topics upon which research is needed, is especially valuable. It should prove stimulating to students and helpful to teachers less original or less well versed in the field than Messrs. Miller and Form.

If *Industrial Sociology* is something of a reference book in industrial research methodology and research gaps, it is more directly so in the history and literature of the subject. The Year One of industrial sociology is somewhat categorically given as that of the Hawthorne Experiments though the book itself disproves this thesis: the foreunners go back nearly a century and other methods of study besides that of strictly controlled laboratory experiment started well before those at the Western Electric and have been successfully used in many studies since. A long bibliography of old and new works in related fields, with an accompanying chart which visualizes the data by dates and authors, shows the development of the knowledge of industrial relations. Chapter bibliographies and footnotes represent an amazingly complete coverage of articles, reports and special studies in this rapidly growing field. Though perhaps too much to expect of authors or publishers, it would be most convenient if all this material were repeated, classified, in an appendix. The present index of names is a partial substitute, but it is incomplete and inconsistent.

It is a happy circumstance that industrial sociology arrived on the scene after sociology became respectable. For now many people can, without apology and with profit, consult an *Industrial Sociology* for insight into the motivation and behavior of the worker: economists, managers, specialists in wage setting, directors personnel and industrial relations, union officers, group and community leaders.

As the foregoing discussion suggests, and as they specifically say, the authors take as their field the relations of workers in every sort of work. It is a large order and, therefore, it is not surprising that they dismiss with bare mention the somewhat specialized features of work in agriculture. Because work and the work relation is approached from several points of view and in a sort of sociological biography of the worker in his adjustment to work from childhood to retirement, there is considerable repetition and some overlapping. This, however, is probably more apparent to the continuous reader than to the student or the topical user.

Formally at least the whole complex subject of industry and the community is disposed of in one relatively short chapter. There is more in the book on the subject—a sentence, a paragraph, a page here and there—to point out the effect of work behavior and work relationships on the community and vice versa. This reviewer, because of long interest in the industrial community, would like to see that phase more emphasized. It would help if all on the topic were brought out fully in a more analytical index.

The picture of modern industrial society that emerges in detail throughout the

book and in the final chapter, "Industry and Society," is not a very happy one. But man, the social animal, has many small ways of keeping his relationships from becoming purely mechanical even in a machine age. If the expertness that operates the technical side were matched by skill and wisdom on the human side —which these authors show man is accumulating—industrial society might be made vastly more human.

University of North Carolina HARRIET L. HERRING

Readings in Labor Economics and Industrial Relations. Edited by Joseph Shister. Chicago: J. B. Lippincott Co., 1951. Pp. x, 661. $4.75.

Dr. Shister, who has had teaching, administrative, and practical experience in the field of labor and industrial relations, together with the fact that he has been a prolific author, highly qualifies him for the editing of the book of *Readings in Labor Economics and Industrial Relations*.

An insight into these *Readings* evidences that a valuable accomplishment has been made resulting in a landmark in the expanding literature in the field of labor relations so vital to our economy. This volume comprises approximately 100 expertly selected articles according to a previously determined master plan. The approach diverges drastically from many general readings books. The reader can see the realistic aspects of labor-management relations in spite of the magnitude and complexity of labor relations problems.

The criteria used in selecting the articles and arranging them in this volume are: First, does this article satisfactorily and constructively discuss a significant labor problem? Second, is it understandable for an undergraduate college student? Third, can it be woven into the context of the other articles so as to unify the subject matter?

Proceeding according to this plan, the author elects to use longer articles rather than brief excerpts for the purpose of developing a philosophy. This one fact is possibly the strongest recommendation for the use of this volume. The articles are grouped under general headings evidencing an attempt at juxtaposition so as to indicate relationships of similarity and dissimilarity. In the industrial group action strong emphasis is placed on economic and human factors.

After a brief background showing the development of the working class, the author delves immediately into unionism and gives considerable attention to collective bargaining in all of its aspects. He weaves the role of government into the picture, then proceeds to a coverage of unemployment, followed by the last part covering income and leisure security.

This book is in comformity with most recent treatises on labor which seem almost entirely based on a unionized labor force dealing with factory management as influenced by the federal government. Due to the fact that they do not fit into the pattern of unionism as a basic approach, many important labor problems are entirely neglected. This fact may be forgotten more readily in a readings book than in a textbook.

This compilation of readings, carefully edited, woven around important subject matter, is highly recommended for collateral readings in the field of labor and

industrial relations separately or jointly. The value of this work is greatly enhanced where library facilities are limited.

University of Kentucky L. H. CARTER

Introduction to the Total Theory of Labor: New Positive Foundation of Economics. By Alexander Kokkalis. Concord, N. H.: Privately printed by Evans Printing Co., 1950. Pp. xi, 232. $6.00.

It seems appropriate to begin this review with an introduction of the author. Dr. Kokkalis is a native of Greece and was formerly an associate professor at the University of Athens in Greece. He is now visiting in the United States, and this work represents his first English publication in the field of economics.

The title of this volume, "The Total Theory of Labor," indicates the nature of the basic premise upon which the work is founded. The author feels that labor is the only "economic means" over which we have any control and the whole of the economic process revolves around this "means." Although he was aware of the efforts of Ricardo and Marx in this field and their ultimate conclusions, his attempt to present his own views and to refute the traditional economic doctrines is too dogmatic. The following quotation is typical of the general attitude assumed by the author toward this work. "At this precise point I believe that I have made a contribution to Economic Science which is destined never to lose its basic importance. Not even after the lapse of myriads of years will it be possible for one to accomplish a new and more positive classification" (p. 27). He makes this statement concerning his definition of the "elements of production."

The system outlined in this theory is centered around four main ideas: (1) There is but one basic "economic means," labor. (2) The process of production, in fact all economic processes, is nothing more than the process of labor. (3) There are only two elements of production and value, namely, the directive and executory elements. (4) There is a multiple relationship, not an additive one, between the two above mentioned elements.

Possibly the greatest divergence from the classical school appears in item three of the above outlined, the classification of the factors of production. The author completely abandons the usual classification of the factors of production, land, labor, capital and entrepreneurship, combining them under a single heading, labor, which he separates into directive and executory. He believes that the whole universe is made up only of these two labor elements and that economic theory is explainable only in terms of them.

The late Professor Schumpeter, when interviewed by the author in 1948, made the following comment regarding the publication of this work in the United States. "Dear colleague, it would be better if you did not publish your theory of labor in the USA. For either your theory will generally be recognized and then all will be good, or it will be rejected and then you will lack the means to continue your way" (p. 191). Unquestionably, this work required years of research and study, but unfortunately the reviewer feels that the latter of the two conclusions drawn by Schumpeter will prevail.

University of Florida CARL E. CALOHAN

Freedom of Association and Conditions of Work in Venezuela. Washington: International Labor Office, 1950. Pp. 185. Paper, $1.00.

On March 5 and March 7, 1949, protests were made before the Governing Body against infringements of freedom of association in Venezuela. As an outgrowth of these protests the government of Venezuela requested the International Labour Office to send a mission to that country to make an investigation ". . . concerning our social problems, general conditions of work in the several industries, the scope of the benefits and protection afforded to workers under the legislation in force and the National Government, and the development and functioning of trade unions." The publication under review is the report of the ILO Mission which made its investigation from July 26 to September 1, 1949.

The report is confined to an analysis of the 1949 position of the trade union movement and the conditions of work and living conditions of wage earners. The study reveals that trade unions in Venezuela are of recent origin, largely dating from 1941. The right to organize was expressly guaranteed by the National Constitution of July 5, 1947. The Venezuelan Confederation of Labour was established in November, 1947, but was eliminated one year later by the Coup d'Etat. This blow at the Confederation was aimed at penalizing the unions for political activity; the dissolution of the Confederation eliminated the real political group and made economic action difficult. In 1949 locals had to obtain government permission for each union meeting as a result of the suspension of constitutional guarantees. The mission concludes that "freedom of association is far from complete." The report clearly portrays two effects of frequent national political upheavals on the union movement. These are: (1) the splitting of the movement, and (2) the causing of undue emphasis to be placed upon politics.

Venezuela possesses an advanced Labour Code that on paper rivals progressive social legislation of more advanced countries. The Labour Code cannot be attributed to the trade union movement, rather it was inspired by the experiences of more advanced countries and was drawn up from the point of view of the rich and prosperous petroleum industry. Such legislation has placed an undue burden on industries other than petroleum and has rendered enforcement extremely difficult. In actual practice both collective bargaining and the Labour Code have resulted in placing emphasis on ". . . immediate pecuniary advantages rather than on social reforms of a more long-term nature."

In the concluding chapter specific recommendations are made to employers, government, and unions for the improvement of labour relations. Briefly stated, the major recommendations are: (1) unions should more clearly demark their purely trade union activities and their political activities; (2) unions should be regrouped and again centralized, and improve their administration; (3) employers' associations should be formed; (4) more complete and lasting social reform programs should be developed; and (5) constitutional guarantees should be reestablished.

This excellent report covers all phases of the assignment made to the Mission, but one regrets the narrowness of the instructions for many interesting questions are not treated. How did the Confederation of Labour abuse its power (p. 46)? Did the Confederation impose burdens upon the economy that were unbearable?

What were the characteristics and accomplishments of the Confederation's political activities? What can be said regarding the organization for collective bargaining? Is the time right for the extension of social reform measures? These questions are not intended to reflect on the general merit of the Mission's report; but, rather to demonstrate that the study does not attempt to provide a full treatment of labor relations in Venezuela.

University of Tennessee J. FRED HOLLY

Labour. By P. Sargant Florence. London: Hutchinson's University Library, 1950. Pp. vii, 230. 7s6d.

In this brief volume, Professor Florence offers the general reader a simple, clear, and masterly exposition of ways of achieving efficient utilization of the human factor in production, with particular emphasis on the problems to be faced under a national policy of full employment and social security. After an analysis of available man-power in Britain and its present allocation and a description of measures of efficiency, Part II of the book proceeds to a consideration of the conditions which make for efficiency in employment. These include not only wages, hours and physical conditions, but also social relationships in industry, the varied reactions of workers to monotony and responsibility, and the influence of home and family on work adjustment. Unemployment is considered as a special case of failure to make efficient use of resources, involving problems of stimulus and incentive similar to those met in employment. Part III deals first with the incidence of unemployment, separating it into three categories; personal, general, and particular to certain industries. These in turn suggest three different types of solution: "... treatment of persons; general national policy; and mobility of labour between industries, occupations and places helped by local diversification of industries." The chapter dealing with the prevention of unemployment follows the Keynesian analysis of the role of investment and stresses the need for public outlay to offset fluctuations in private investment. In the final section of the volume the general question is raised as to who is to be charged with the alteration and control of conditions so that inefficiency and unemployment may be prevented or reduced. Here the author traces the shift from laissez-faire and control by the employer alone to participation by trade unions and by the state in setting standards.

Professor Florence ends his discussion on this note: "The key to social progress—the avoidance of unemployment and rising productivity per man, and hence rising standards of living and amenities—lies today largely with the top management of big industrial enterprises whether co-operative or nationalized or controlled by capital." While in thorough agreement with the author about the importance of managerial "labor," this reviewer could wish that Professor Florence had included some discussion of the actualities and potentialities of union-management co-operation on productivity and efficiency in Britain. Is the organized labor movement still primarily or entirely concerned with the workers' share of the national dividend rather than with the size and increase of the total to be divided?

This is a case of "much would have more." For Professor Florence's study

offers such an excellent combination of theoretical grasp and practical wisdom on the problems of labor that one wants to have it applied to the question of the development of the positive functions of unions as they grow in power—a question which arises in all advanced industrial countries.

In general, Professor Florence has done a magnificient job of selection of material on a subject where selectivity is peculiarly difficult. His treatment has the kind of simplicity and directness which only comes from complete mastery of the subject. As he has used imagination in presenting statistics and tables and combining figures in such a way that they both clarify and add interest to the text. The book is to be recommended both to the general reader for its content and its clarity and to the trained economist who will especially appreciate its technical competence.

Sweet Briar College GLADYS BOONE

Pressures on Wage Decisions. By George P. Shultz. New York: John Wiley & Sons 1951. Pp. vii, 142. $3.00.

Here is an excellent analysis of the forces bearing on wages in the Brockton, Massachusetts, shoe industry. Brockton, an old center of the shoe industry, has 30 shoe companies still located within a ten mile radius of the town, a shoe manufacturers association, and the Brotherhood of Shoe and Allied Craftsmen, an independent union covering the vast majority of Brockton companies.

The author first considers economic characteristics of the shoe industry with its intense competition, large number of small companies, and technological similarities of the companies. Brockton has suffered a drastic decline in the number of shoe manufacturers and hence in shoe industry employment over the past 30 years. Concentration is now largely on men's footwear. The Brotherhood operates within a complicated, federated structure in some respects semi-autonomous but operating as a unit in matters such as general wage changes. Wage movements in the area reflect the real danger of business loss to which the union is now almost as sensitive as the manufacturers.

Chapters cover the large number of factors influencing wages in the Brockton shoe industry. A "grade system" of paying different rates to identical pieces because one piece goes into cheaper shoes and another into more expensive shoes has caused many grievances. And yet the system is tolerated because it grew partially out of the need for making Brockton competitive. A wild piece rate situation evolving historically out of unsound original setting, pressure of groups, and expediently applied technological change is in some instances condoned by the union whose "price experts" can sometimes use out-of-line rates to the advantage of their particular craft. Then, too, as you would expect, personal pressures affect wage decisions: manufacturers in their attitudes toward the union, conditioning of management and union representatives over a long period of time, "political" problems in the union with its price experts and crafts of differing degrees of strength.

Although certain features in the Brockton area study are somewhat unique to the shoe industry (ease with which companies can pick up and move from one

location to another and the grading system as examples), the studies provides much food for thought as to wage pressures in other areas and other industries. How valid is the "competition" theme so universally used to resist wage increases? How often do union politics hamstring management, preventing sound moves such as time study and job evaluation? How effective is an independent union in relation to a national union?—the Brockton manufacturers geared their decisions in part to the threat of the C. I. O.

George Shultz has completed a good research project in this book and made it interesting as well. At times, he has without proof "guessed" at a number of explanations and evaluations. On the whole, though, his treatment is statesmanlike—he gives both unions and manufacturers a fit for the part each has played in exerting some of the unwise pressures on wages in Brockton.

University of North Carolina RICHARD P. CALHOON

Workmen's Compensation in New Mexico—A Comparative Analysis. By Robert W. Thomas, Jr. Albuquerque: Department of Economics, University of New Mexico, 1950. Pp. v, 179. $2.00.

Although much has been written on workmen's compensation from the legal and historical points of view, studies of the operation of such laws as they affect employer, employee, and insurance carrier are very rare. Mr. Thomas analyzed the operation of the New Mexico law with respect to extent of coverage, costs of insurance, cash and medical benefits, attorneys' fees, regulation of working conditions and administration of the act. The study also compares the New Mexico act with that of its neighboring state, Arizona, and with the model act proposed by the Fifteenth National Conference on Labor Legislation in 1948.

In accumulating his information, Mr. Thomas interviewed employers, employees, attorneys, state officials and judges, and had access to official files. Among special problems found in New Mexico were the following: Coal mines cannot secure coverage by commercial insurance carriers. Health and safety standards do not exist for any activities except mining, although pressure by insurance companies has resulted in some raising of performance levels. The level of cash benefits and the determination of the proper amount of benefit for any specific injury cannot be rationalized by any scientific investigation of needs and costs received by the injured worker. The practice of settling claims in the form of a lump sum payment generally denies the worker full benefit of the law. Medical payments in New Mexico approximate more closely the provisions of the model law than do other aspects of the law, although statistics indicate that the average medical charge per injured worker is still very low. Contrary to prevalent expert opinion, it cannot be clearly established that, for New Mexico at least, a commission-administered law would be superior to the existing court-administered law.

Elsewhere in the study, Mr. Thomas compared awards made under court auspices with statutory awards, and awards made on the basis of a trial, with awards merely approved by the court. The author also compared insurance premium levels with benefit and dividend payments and presented data on the payroll costs of workmen's compensation insurance for various industrial activities.

The final sections of the study evaluate the New Mexico law in terms of the model act and compare the New Mexico law with the Arizona law. The Arizona law provides for a state insurance fund whereas in New Mexico all insurance is carried by private companies. Comparison of the law as it operates in both states is of special significance since, apart from statutory differences in the workmen's compensation law, working conditions in both states are quite similar.

University of New Mexico NATHANIEL WOLLMAN

Planning in Practice: Essays in Aircraft Planning in War-Time. By Ely Devons. London and New York: Cambridge University Press, 1950. Pp. 231. $3.00.

Based largely on his four years experience in the planning division of the Ministry of Aircraft Production, Professor Devons' essays on the problems of planning, financing, and coordinating of British aircraft production during World War II illuminate many of the practical problems which must be faced in governmental planning and control functions.

The book is of particular interest in the light of the remobilization activities which have been necessitated by the recurrence of international tension. It is to be hoped that the agencies responsible for centralized control of national defense production activities may profit from the experience of the recent war. Professor Devons' book is one of the accounts of war production planning experiences which may contribute to this objective.

The necessity of centralized planning in war-time is emphasized, as is the fact that the planning decisions must be made in terms of resource allocation, which is more or less divorced from the monetary terms by means of which economists normally conceive such allocation to be accomplished.

A number of the experiences of M. A. P. have a broader applicability. For example, the target or carrot principle versus the realistic principle in the establishment of aircraft production programs is related to the problem of quota determination in sales budgeting. The problems of inter-departmental communication which M. A. P. faced are similar to those faced by any large business organization.

Production decisions were necessarily based on estimates of productive capacity, estimates which inevitably contained a large element of uncertainty. In the short run, production had to be planned on the basis of available facilities, and the construction of new capacity involved the establishment of longer-run estimates of aircraft and component requirements than the military services wanted to give. While having to depend on the production departments and manufacturers for estimates of productive capacity, M. A. P. had to discount their estimates in order to establish production programs which it could reasonably expect to be achieved.

Since the various components for any aircraft were produced by numerous firms, M. A. P. had to coordinate the production programs of these firms so that proper quantities of each component would be produced—a problem which was further complicated by the requirements of the military services for spares.

Professor Devons' discussion of the relationship of statistics to planning is a particularly interesting one. Planning is based on an examination of past trends

and their projection into the future. The necessity of periodic program revision along the lines of the flexible budget principle is discussed, as is the problem of unequal month lengths. The difficulties encountered in presenting statistical information to officials who were untrained in statistics are of particular interest.

By the very nature of the specialized subject with which the book deals, it will necessarily have a rather limited audience.

University of Mississippi R. F. WALLACE

Economics of American Industry. By E. B. Alderfer and H. E. Michl. 2nd ed. New York: McGraw-Hill Book Co., 1950. Pp. xii, 716. $5.50.

This is the second edition of the *Economics of American Industry* which was first published in 1942 for use at the Wharton School in a course taken by students specializing in industrial management and industrial relations and by students on an elective basis in economics.

The "principal manufacturing industries of the United States" are analyzed under the following groups: The Metal Industries; The Metal Fabricating Industries; The Nonmetallic Mineral Industries; The Chemical Process Industries; The Textile Industries; The Apparel Industries; and The Food, Liquor, and Tobacco Industries.

The central theme of the work is the nature of industrial competition, and this theme is pursued as each industry is discussed under three headings: (1) the place and structure of the industry in our economic order; (2) the development of the industry; and (3) the competitive aspects of the industry. "The Changing Pattern of American Industry" is presented in a final section which includes three chapters entitled: The Changing Pattern of Historical Development; Technology—The Course it Has Taken; and Competition.

This second edition has as an objective to present for each industry the latest available information to indicate changes in productive capacity and shifts in location. Emphasis is placed on new technological developments in the principal industries, and the integration movement in textiles is analyzed.

The title, *Economics of American Industry*, is misleading as the extractive and agricultural industries are not included. "Manufacturing Industries of the United States" would be more appropriate. The emphasis is on the economics of industry management and competition, which is highly commendable; but there is still a need for a work on all the principal industries that will integrate the area of the economics of industry management with broader issues of the economics of public policy. This is management's job today.

The authors have given us an excellent work within the scope of their objective under the guidance of "The hope of mastery lies in limitation." However, one major omission deserves mentioning. On page 67 the fact is correctly stated that the iron ore ranges of Lake Superior today supply 85 per cent of our domestic consumption. Yet no mention is made of the very serious rate of depletion of the Class I and Class II reserves in these ranges. This major problem of industry management should have been given thorough consideration on page 70 under the topic "Stability and Change in Location." Since McGraw-Hill has devoted much

space to this critical situation in "Business Week," as joint publishers they were in an excellent position to help the authors bring the 1942 edition up to date.

In spite of the above and other minor flaws, *Economics of American Industry* is under consideration for use as a basic text in a proposed course—Industries of the United States. The 1942 edition has been used at Chapel Hill for reference purposes in the fields of resources and industries and investments.

University of North Carolina OLIN T. MOUZON

The Rural Economy of New England: A Regional Study. By John D. Black. Cambridge: Harvard University Press, 1950. Pp. xxiv, 796. $7.50.

While reading this book, the reviewer was reminded of a professor he studied under in his early college days who constantly scolded his students for their lack of knowledge on the economy of their home counties and states. Were this man living today and teaching at a college in one of the northeastern states, he would certainly assign *The Rural Economy of New England* as required reading prerequisite to passing his course. The book is a compendium of statistical knowledge on New England, and as such, it is a valuable source book on this section of the United States.

However, the main objective for studying in detail the economy of New England is not confined to an understanding of the region itself. Rather, New England, with agriculture intermixed in a society largely industrial and commercial, furnishes an example of an economy expected to prevail in other regions of the United States in the future. "The distribution of land uses between rural and urban which one finds in New England . . . is likely to characterize, in some future period, . . . a large part of our national domain." Thus, what we can learn from New England today will help us to understand the ever-changing land utilization of other regions in the future. Unfortunately, this part of the analysis is not developed to any appreciable extent.

The author does not present any large portion of either his data or ideas in terms of regional concepts. In chapters 1 and 2, he defines his assignment and answers the question, "What is New England?" This is followed by a series of 14 chapters which describe the physical environment, the people, industry, trade and transportation, ownership and utilization of the land, and the organization and evolution of agricultural production. The next 11 chapters present the rural economy "in terms of the production, marketing, and prices of the products of its (New England) farms—one chapter for each product, except three for dairying." Discussions of the woodlands, recreational lands, land values, tenure, and public finance occupy the remainder of the book except the last two chapters which treat "Trends, Prospects, Potentials" and "Regional Policy and Program." Throughout all these chapters, the presentation is largely descriptive in terms of terms of average acres, yields, numbers, production rates, percentages, and prices.

Descriptive statistical studies of this sort seldom make exciting reading. *The Rural Economy of New England* is no exception. It should, however, serve a real need through stimulating discussions of land utilization problems and our rural economy as a whole.

Virginia Polytechnic Institute W. L. GIBSON, JR.

Cost Accounting and Analysis. By Carl Thomas Devine. New York: Macmillan Co., 1950. Pp. xv, 752. $5.00.

When the masses can be influenced to adopt the initial sentence instead of the cover and title as the criterion for judging a book, a significant milestone in intellectual progress will be attained. There are probably very few cost accountants, even in the teaching profession, who would not experience a feeling of surprise upon opening this book and reading: "In a capitalistic economy the profit motive is considered to be the mainspring that motivates business activity." Before laying aside the book with the idea that he has inadvertently opened a text on economic principles, the accountant should yield to his curiosity long enough to discover that at last cost accounting has been accorded its true economic significance.

Professor Devine has divided his book into three sections. (His reference to them as "interdependent" will immediately inspire the punster to describe the arrangement as a "Devine trinity.") In the first two sections the reader will recognize the customary organization of material to be found in nearly all cost accounting textbooks. One significant departure is the fact that process costing is discussed before job costing. This reviewer interprets this order to be in harmony with the author's emphasis throughout the book that the primary function of the cost accountant is the control of costs. The average student will be delighted to find the first section remarkably free from the plethora of strange forms and complex diagrams which characterize the initial chapters of most cost accounting textbooks, although the instructor may feel that this omission is not accompanied by any decrease in his expository responsibilities.

Section II develops the various systems and techniques which are essential to the effective control of costs. An interesting innovation is the author's extensive use of alphabetical formulae for the computation of the variances from standard costs. A mastery of these abbreviations should save considerable time for both teacher and student and a universal adoption of these symbols might constitute the author's major contribution to the field of cost accounting.

However, it is the third section of *Cost Accounting and Analysis* which distinguishes it from the rest of the literature in the field. By virtue of his contributions in the area of budgeting, the cost accountant is exalted to managerial heights from which he may view the promised land of profit planning. It might be interesting to compare the surprise of a cost accountant upon seeing a set of traditional cost curves in this book with that of an economist upon seeing break-even charts in recent textbooks on economic principles.

It is indeed a brave crusader who dares to surmount the more or less artificial barriers erected between the departments or curricula in the modern schools of business. One notably successful accomplishment in this particular area was the classic work, *Studies in the Economics of Overhead Costs*, by J.M. Clark, to whom the author acknowledges his indebtedness. Professor Devine may not have completely transformed the bookkeeper's elevated stool into the economist's armchair, but the result is a satisfactory swivel chair in which each may feel comfortable and occasionally survey the other's sacred domain.

University of North Carolina EVERETT TRUEX

Budgetary Control. By Walter Rautenstrauch and Raymond Villers. New York: Funk & Wagnalls Co., 1950. Pp. xiv, 301. $5.00.

The authors have attempted to summarize " . . . those methods and means of budgeting which experiences has proved to be most useful" and to present the subject matter in the light of the scientific method of analysis. The volume is divided into four parts: (1) The Sales Budget, (2) Inventory, Production and Expense Budgets, (3) Control and Adjustment, and (4) Other Budgets—Practical Applications. The material is presented in simple language, stressing basic principles and leaving most of the details and procedures to the reader's common sense to work out and apply. Mathematical and accounting techniques are used sparingly, but explanations are not always adequate for those unfamiliar with the subject. Examples from business practice and analogies, illustrating principles, are well chosen and profuse. The book suffers a little from proofreading errors and from many references, both internal and to an earlier book by the same authors.

A "sales mixture" chart is introduced as a new control mechanism. Direct profit per product (or by lines having similar profit characteristics) is plotted against the percentage that the sales of each item or group bear to total sales. Direct profit is defined as " . . . the difference between selling price (or the average selling price in case of multi-pricing) and the direct cost." Direct cost includes prime cost plus such overhead costs as can be charged directly to the particular product; that is, overhead charges which must be distributed by some accounting fiction are excluded. The chart is used to call deviations from standard or budgeted sales mixtures to the attention of management and appears to be a convenient tool. Essentially this is another way of recognizing sales proportion variations between budgeted and actual results. The several lines of a multi-product manufacturer seldom have the same cost-profit relationship, which makes it necessary to take the distribution of sales by lines into account in adjusting the flexible budget to actual sales conditions. This important factor has been recognized for a long time by users of flexible budgets.

While the book has many excellent ideas, it will be a disappointment to those who wish a specific technique to follow in putting budgetary control into practice. A useful, but incomplete, bibliography of budgetary control literature is appended.

University of North Carolina JOHN E. DYKSTRA

Salesmanship: Helping Prospects Buy. By C. A. Kirkpatrick. Cincinnati: South-Western Publishing Co., 1951. Pp. xii, 483.

Perhaps more books have been written on Salesmanship than on any other phase of Marketing. Yet in this book the author has nevertheless made a refreshingly original and sound presentation. The author aims his book thus in the Preface:

"This textbook for college students is based on the firm conviction that a salesman has two major obligations—to make money for himself and his company, and to help buyers buy advantageously. Furthermore, the author contends

vigorously that unless the salesman does the second job well, he cannot do the first job well. The salesman who does both jobs effectively is truly a professional man."

This is a large order, but Professor Kirkpatrick fills it neatly by the simple expedient of sound material and organization based not only upon his own teaching experience and research but also upon well over 100 sometimes lengthy quotations from leading salesmanagers and from the sales manuals and other sales literature of nearly 150 leading American companies.

The book is divided into two parts—What a Salesman Should Know and What a Salesman Should Do. Part I includes discussions of such major areas as Sales Personality, The Salesman's Company, The Salesman's Products, and The Salesman's Prospective Customers and their Buying Motives. Part II follows the steps in a sale in a somewhat traditional manner such as Getting and Opening the Interview, Telling the Story (creating interest and desire), Handling Objections, and Closing. The book ends with two chapters on Working with Customers (more commonly called merchandising) and Managing Himself.

Each chapter is divided into its important topics with side headings which together with numerous charts and illustrations make for easier student use. Study Assignments and one Special Project are included at the end of each chapter. In the reviewer's own classes in Salesmanship, each student is required to select a company and a product and to prepare a sales manual and, near the end of the course, a sales presentation based upon his own study. It would seem that the organization of this book is such as to lend itself readily to this or other similar course requirements for additional work.

While as stated before the text is somewhat traditional in its content, it nevertheless manages to present considerable fresh and original material and to state effectively some of the newer trends in selling and sales training. In particular, this is true throughout the book in the emphasis given to such problems as the salesman's obligations to prospects and customers, selling ethics, and securing the prospect's point of view.

For a summary statement of the general worth of the text, one can commend the author for achieving his avowed objective of presenting Salesmanship "... in its modern conception of service." It possesses a writing style easy to follow and to outline and should make an excellent text for courses in Salesmanship at collegiate level. It could also be read with profit by practicing salesmen and sales managers.

University of Tennessee E. O. DILLE

STATE REPORTS

ALABAMA

During the first two months of 1951 overall business activity in Albama receded slightly from the peak levels attained in the last half of 1950. Although the recession was slight, it exceeded the corresponding slackening which occurred in the country as a whole.

A seasonally adjusted index of industrial production for Alabama registered a decline of 2½ per cent in the first two months of 1951 as compared with the fourth quarter of 1950, while the Federal Reserve Index of Industrial Production showed a like *increase* for the country as a whole. Alabama employment in non-agricultural establishments held rather firm, falling off less than 1 per cent from the fourth quarter of 1950. Am employment decline of approximately equal magnitude also occurred in the United States as a whole. Steel ingot production was off more than 7 per cent in Alabama as compared with a decline of only 1 per cent in the United States as a whole. Neglecting the extraordinarily high December sales figure, retail sales in January and February were down 4 per cent from the fourth quarter of 1950. Despite these indications of lowered activity, prices continued to rise. The Birmingham price index was up 5 per cent over the fourth quarter as compared with about 3½ per cent for the United States. This carries prices to record levels in Alabama, as well as in the United States. Prices received by Alabama farmers also continued to rise, climbing 3 per cent in January over December.

In an overall sense, business activity in Alabama continued at boom levels but receded slightly from previous peaks in most categories. The only exceptions were in prices which rose to new heights. It seems that business activity is in a slight trough between the wave of private buying which followed the outbreak of the Korean war in June, 1950, and the wave of defense spending which will reach new heights in the ensuing months.

University of Alabama John S. Henderson

FLORIDA

As it neared the midpoint in its sixty day biennial session, the Florida legislature had not yet completed action on several bills affecting the state's economy and fiscal practices. A proposal to inaugurate state regulation of public utilities received favorable House action only after municipally owned systems and REA groups were exempted. Bills to overhaul the insurance code which were introduced after careful study by a joint legislative committee were not receiving enthusiastic support, although the sponsors estimated policy holders would be saved several million dollars. In addition to far-reaching measures to reorganize the executive and administrative branches of the state government, several specific reforms in fiscal administration had been proposed. Among such proposals were bills to set up a central purchasing agency, a state tax commission, and a state revenue department. Many similar bills have been killed in past sessions.

The perennial taxation issue was again before the legislature. The governor declared himself strongly against any new taxes in his message, and many legislators, especially in the House, were of like mind. Senators more sympathetic to the needs of the public schools and state institutions voted to eliminate various exemptions in the 1949 sales tax but retained exemptions on food and commodities already separately taxed. It was estimated these changes would bring an additional $17,500,000 annually.

* * *

Since January 1st Florida orange prices have been running consistently under those of 1950 by fifty to seventy-five cents per box. This year's crop of 62,000,000 boxes was six per cent above last year's, while California's 1951 crop was not seriously injured by abnormal weather as it had been in 1950. Florida citrus narrowly escaped serious damage during the past winter, when the state experienced the worst freeze in forty years. Optimism over the future outlook for the citrus industry was evidenced by official proposals to increase by one cent per box the tax used to promote marketing campaigns. Another indication was the fact that over one million new citrus trees were added to Florida groves.

If current plans are carried out, one of the state's major agricultural products will be linked to one of its newer manufacturing industries. A paper mill to utilize the bagasse from the sugar mills has been planned with an output of 45,000 tons of newsprint per year. If carried to completion this plan to utilize the byproduct of sugar may become equally as successful as the citrus feed industry built upon the waste from canning plants. Florida's campaign to further develop industry in the state has been slowed by the inability to secure any significant amount of defense contracts.

University of Florida C. H. Donovan

KENTUCKY

A "quickie" special session of the legislature disposed of the state's surplus revenue accumulation. Six million dollars were added to teachers salaries for the fiscal year 1951–52, raising the state's contribution per pupil from $29.59 to $38.36. Public assistance for the same period was given an additional $2,000,000. This is expected to raise old-age payments from the present monthly average of $20.58 to $30, aid to dependent children from $37.17 to $42 average for each family, and assistance to the needy blind from an average of $22.11 a person to $32.

Penal and mental institutions received $250,000 additional for the current fiscal year and $750,000 for next year. A sum of $250,000 was set aside to underwrite the state's share in getting Social Security benefits for its 16,000 employees through the next fiscal year. City and county governments must take separate action to enable their employees to get the benefits. This latter measure passed the House 85 to 0.

The legislators took no notice of the fact that these increases are supposed to be permanent, necessitating more revenue in the future. Nothing was said in the call for the session of additional taxes. However, the Department of Revenue has estimated that state revenues for fiscal 1951–52 will exceed those of 1950–51 by

about $6,000,000. This would be a little over $10,000,000 more than was appropriated for expenditures in 1951–52.

The 1950 burley tobacco crop sold at the highest price in history, $48.68 per 100 pounds. Gross sales totaled 526,000,000 pounds, of which about 6.5 per cent were resales. This was a decline of about 9 per cent from the 1949 crop. Kentucky's share was 343,000,000 pounds. The state's share of one-sucker tobacco, grown principally in the western part of the state, was about 13,000,000 pounds, which brought an average of $23.48 a hundred pounds. The corresponding figures for 1949 were 18,000,000 and $27.79.

Census data on Kentucky's population trend during the past decade emphasize once again that the state does not provide sufficient economic opportunity for its young people. Whereas the increase for the country as a whole was 14.3 per cent, that for Kentucky was only 2.7 per cent. This relatively poor showing was not due to the birth rate which was approximately one-fourth higher than that for the entire United States. Of the state's 120 counties only 41 showed increases, most of these being small to moderate. The drift away from the farm is indicated in the marked growth of cities, both large and small. Ohio county, for example, lost 15 per cent of its population, but the two small towns in the county gained 14 per cent each. The discouraging thing, however, is that a birth rate which should have given a gain of about 18 per cent for the state was nullified by migration which held the gain to less than three per cent. The 15 per cent evidently went to greener pastures, at least greener economically.

University of Kentucky RODMAN SULLIVAN

LOUISIANA

The effects of the nation's rapidly expanding industrial economy are being felt more and more in Louisiana. Large-scale plant expansions and plans for new industrial sites are being announced almost daily. Since January 1, 1951, at least 17 separate announcements have been made for expansion or construction of plant facilities valued in excess of a million dollars. Information contained in applications for tax exemptions and in newspaper articles indicates that the following developments are projected: (1) A $2 million chemical plant at Weeks, (2) a second nitrogen solutions plant for June 1951 start-up at Sterlington, (3) a $1 million aromatic hydrocarbons plant at Baton Rouge, (4) a plant employing 5,000 people to manufacture tank engines at New Orleans, (5) an expansion of the Buna-N synthetic rubber plant at Baton Rouge, (6) additional expansion of caustic soda production facilities at Lake Charles so that a $5 million current expansion program will be complete in January 1952, (7) $22.5 million utility plant expansion in Baton Rouge, (8) a $3 million expansion of an alumina plant in Baton Rouge, (9) the construction of $79 million aluminum reduction plant at Chalmette, (10) a multimillion sulphur mining plant at Bay Ste Elaine Dome near Houma, (11) an expansion of $1.5 millions by a sugar refinery in Reserve, (12) construction of a $2 million match factory in New Orleans, (13) construction of a $1.5 million yeast factory at Belle Chasse to be expanded to a $5 million installation in 5 years, (14) a $6.5 million expansion in facilities to produce aviation

fuel, gasoline, and diesal fuel at Destrehan, (15) construction of a $4 million Carbon black plant at North Bend, (16) addition of $1 million facilities for petroleum processing at Chalmette, and (17) addition of $1.5 to an oil company at Lake Charles. Expansions of this magnitude cannot be accomplished without having a profound effect upon the state's economy. All types of resources, owners, and enterprisers will feel their effects.

Business activity in Louisiana in February, the latest month for which data are available, was below the January level but considerably about the February 1950 level. With minor exceptions, gains in all phases of economic life between February, 1950 and February 1951 were recorded. Unusual gains were shown in the various lines of wholesale trade, in manufacturers' sales, and in petroleum. Building permits, building material sales, and related activity were evidently beginning to feel the effects of construction curbs for these indicators showed declines from the February 1950 levels. Information from the Louisiana Division of Employment Security showed decreases in applications for employment.

Louisiana State University W. H. Baughn

NORTH CAROLINA

The 1951 General Assembly, which adjourned in April after three months' work, did a most remarkable job of conserving the state's finances. Meeting at a time when the psychology of inflation was rampant, the vast majority of its members determined from the first that the state should have no new taxes and no new debt. This determination was stubbornly adhered to in the face of recommendations by the governor that the scope of the sales tax be enlarged, and the usual pressures for appropriations, especially the strong insistence for increases in salaries for public school teachers, who are by far the largest group of state employees.

Even so, the appropriations bills finally adopted were considerably the largest in the state's history, and actually exceeded by $42,000,000 the sums recommended by the Advisory Budget Commission in January. This increase, the bulk of which went to the state's institutions of learning, correction, and healing, seemed justified by the larger revenue yields that existing tax rates were producing in 1950–51 as a result of the nation-wide inflationary boom. General fund revenues, provided chiefly by sales, income, and franchise taxes, are expected to reach $156,000,000 in fiscal 1950–51, although they have never exceeded $140,000,000 in any previous year. For each of the fiscal years 1951–52 and 1952–53 they are estimated to be at least $160,000,000. These fruits of inflation encouraged the lawmakers to appropriate $335,000,000 for gneral fund purposes, $164,500,000 for highways, and $2,000,000 for the so-called agriculture fund. The comparable appropriations in 1949 were $280,000,000, $120,000,000 and $2,000,000. (In addition to these amounts, the 1949 General Assembly appropriated largely from accumulated surplus some $100,000,000 for educational buildings and other permanent improvements.)

Modest increases for state employees other than teachers were provided. Teachers' salaries will remain on the level of $2200 to $3100 per year, so far as the

state scale is concerned. (In a number of towns and counties the state scale is supplemented by local appropriations from special tax funds.) No little fear is entertained within the state that competent instructors for the growing number of school children will, in view of this decision, be even more difficult to secure and to retain than in the past. There is, however, no evident bitterness among the teachers, and the general sentiment of the people toward the work of the legislators seems to be one of approval.

Davidson College C. K. Brown

SOUTH CAROLINA

A highly significant development in the marketing of farm products in South Carolina is the construction of a new wholesale market in Columbia. It had been known for several years that the old market had outgrown its space and antiquated facilities. Columbia has become an important exchange point and redistribution center for produce. It has been estimated that about 90 per cent of the produce handled on the market is distributed outside the metropolitan area of Columbia.

Because of congested conditions and inefficiency of operation, state marketing officials, with the assistance of the Marketing Facilities Branch of the U. S. D. A., initiated a move to relocate the market and provide modern facilities. The site chosen provides ample space, including space for orderly expansion, and has excellent rail and highway transportation.

The principal purpose and justification of the new market is to reduce marketing costs. A study of the old Assembly Street Market revealed that direct rail service was not available, and motor truck traffic was awkward and trying due to congestion. Extremely poor design of the buildings on the old market further complicated the transportation problem making loading and unloading slow and expensive.

Some of the major marketing costs which will be reduced or eliminated entirely on the new market are cartage, porterage, spoilage, and pilferage. The first two arise from transportation problems and the latter two from poor facilities (dealers' wholesale stores and farmers' sheds). An estimate for the entire market as it now operates puts these costs at $181,094 for porterage, $30,401 for cartage, $654,000 for spoilage, and $15,500 for pilferage, or a total of $880,995 annually. The new market with adequate facilities, rail service to the door, and ample room for truck traffic under controlled conditions will make it possible to reduce these costs.

To finance the new market the State of South Carolina has appropriated $200,000, the City of Columbia has donated $50,000, and Richland County has contributed $25,000 in cash and has pledged $25,000 worth of labor, property and services. This total of $300,000 has been supplemented by a revenue bond issue of $650,000, making a total budget of $950,000 for the initial project.

Because of its type and design the development of the Columbia Wholesale Market promises to be one of the more significant market facilities projects in the eastern part of the United States.

Clemson College Chester R. Smith

TENNESSEE

New industrial facilities, high production and employment levels and corresponding rises in retail trade and agricultural crops values combined to make 1950 the second-best postwar year for Tennessee industry. Capital investments exceeding $76,000,000 were made in 248 industrial projects of which 114 were new installations and the balance expansions of existing facilities.

The four major cities reported 61 of the new projects and 79 of the expansions with Memphis leading the way. More important than the development in the "big four," however, is the fact that 53 of the new industries have been located in 37 cities and towns other than the "big four." The stepped-up production experienced by the 3,700 plants operating in the state during 1950 caused average industrial employment to rise to 245,900. Retail sales almost equalled those of the record year 1948.

The facts clearly point to the conclusion that Tennessee is fast becoming a "best" state for any kind of business. Tennesseans received $600,000,000 for agricultural produce grown in the state in 1950 and $400,000,000 profits from manufactured goods. The third largest industry was the tourist business. Tourists spent about $200,000,000 in the state last year. Tennesseans paid around $186, 000,000 for various types of insurance in 1950.

The agricultural production figure is the result primarily of higher prices as Tennessee had 3,632 fewer farms in 1950 than it had five years ago, according to a preliminary report of the Bureau of the Census. There were 230,799 farms in the state in 1950, compared to 234,431 in 1945. Farms which produced $150 or more in agricultural products, exclusive of home gardens, were counted in the 1950 census. In the 1945 report, production of $250 or more was necessary to win farm classification.

These increasing farm prices have resulted in farm land values rising again. At the end of 1950, they hit the highest levels in history and the trend is still upward. Buyers were paying prices which averaged six per cent more in the fourth quarter of 1950 than those prevailing a year earlier. Since June, 1950, bidding for farm land has increased, but the number of farms offered for sale has declined. Tax problems have made owners less willing to sell than they were a year or so ago. Farm mortgage debt has been rising too.

During the first quarter of 1951, the rising trend has continued despite the fact that the road which business firms were traveling was slippery. There were the uncertainties as to military requirements, tax increases, inflation and price rollbacks which darkened the perspective, but regardless of these handicaps, business moved forward. More than $25,000,000 in new industrial developments were announced for Tennessee in February alone. In fact, according to the Tennessee State Planning Commission, in few, if any, other months of Tennessee's industrial history has greater progress been made, especially in number, variety and caliber of the developments.

State tax revenues mirrored the upward trend. The revenue collections from all sources for the first nine months of the fical year, the period ending March 31,

1951, reached a peak of $102,731,422. This figure is up more than seven per cent from the corresponding period of a year ago.

As Tennessee enters the second quarter of 1951, business is confident that the productive capacity of the state will be stimulated rather than retarded by the controls already adopted and any others to be placed upon it since it is believed that the government directives will not be too rapidly issued. Tennessee is willing and ready to throw the weight of her human and natural resources into economic mobilization.

George Peabody College For Teachers James E. Ward

VIRGINIA

Activity at factories and mines and in the construction industry in Virginia has been maintained at advanced levels in the first months of 1951. Many factors are bringing about this upsurge in general business conditions throughout the state. Among these are: (1) Scare buying on the part of consumers, especially those goods which contain materials basic to the defense program. After the scare buying spree of last summer there followed a precautionary period, but the scare buying got under way again in the early months of 1951. There has been an increasing pressure upon retail sales, particularly of furniture, dry-goods, clothing, electrical goods, hardware, automobiles, textiles, paper, and lumber products. The result is that more of almost everything is being turned out than at this time last year as is shown by rising inventories due in considerable measure to anticipating demand. (2) Heavy government demands because of the long-range military program. Virginia is being heavily pressured at this point because of the many war industries and military installations within the state. There are also quite a number of federal civil offices here, which add considerable sums to the income in the state. (3) The inflationary effects of credit expansion by Virginia banks in the areas of consumer purchases, real estate transactions, commercial borrowing, and industrial loans. This expansion has been considerable in spite of the efforts at price and credit controls. (4) The lag between the rise in prices and the taking effect of government controls. These controls have not been too effective due to confusion in administration. (5) Continued momentum of the construction industry in Virginia. Building permits, according to figures of the eight reporting cities, totaled $8.2 million for February 1951 as compared with $5.4 million for February 1950. Construction in Virginia conforms rather closely to the pattern of the South which is experiencing a building boom. Industrial prospects were the heaviest factors. Private building, although affected by the National Production Authority curbs, showed a substantial increase over the first three months of 1950. Gains in residential and public building contracts were large enough to offset any decreases in commercial construction. (6) The healthy agricultural outlook. Farm income has moved up due to rising prices unaccompanied by a comparable rise in labor costs. Virginia farmers are being advised to increase their crops, particularly feed crops, as their contribution to the defense efforts. This is necessary in order to prevent a reduction in reserve stocks and to maintain livestock numbers at the level necessary to meet minimum requirements. (7) A

sound condition in state finances as indicated by the report that Virginia tax payers may be refunded 10 per cent of their income tax payments next December. The law provides that in case the general fund revenues for the 1950–51 fiscal year exceeds $100,000,000 a 10 per cent rebate is guaranteed each Virginia tax payer. Prospects thus far are clearly on the optimistic side. The budget for the 1950–1952 biennium was formulated by the General Assembly during an economic slump and revenues and expenditures were fixed accordingly. But the increase in revenues has exceeded expectations, thereby putting the state finances in a very sound condition. And (8) A rapidly spreading spirit of optimism giving an exhilirating tone to the whole business situation. In fact, this may be moving business into the boom stage which could prove dangerous. It might generate an economic crisis and a business recession. Because of this, caution and a gradual slowing down of business activity on the part of Virginia business men might be the order of the day.

University of Richmond HERMAN P. THOMAS

PERSONNEL NOTES

Lee A. Barclay, instructor in accounting of the School of Business Administration at the University of North Carolina, has resigned to become the business manager for Alabama College for Women.

Richard C. Brewer, assistant professor of accounting at the University of Alabama and now on leave at the University of Hawaii, is resigning effective June 1 to enter public accounting.

Hazel D. Brown has been appointed a lecturer in marketing at Tulane University, effective the spring semester of 1950–51.

Clyde C. Carter, associate professor of business law of the School of Business Administration at the University of North Carolina, has been called to active duty with the Air Force and has been granted military leave.

Lawrence W. Curbo has resigned his position of instructor in accounting at the University of Mississippi.

Kenneth R. Davis, assistant professor of marketing of the School of Business Administration at the University of North Carolina, has been granted leave to pursue further study at the University of Chicago.

Jackson D. Doty has resigned his position of instructor in economics at the University of Mississippi.

John H. Goff, professor of business administration at the School of Business Administration, Emory University, has been awarded a fellowship by Swift and Company to study the economics of the meat industry in Chicago during the summer of 1951.

William T. Hicks, director of the Bureau of Business Research, University of Georgia at Athens, is on leave to serve as senior economist with the Federal Reserve Bank of Atlanta. In his absence, Professor Samuel J. Cobb is serving as acting director of the Bureau of Business Research until August 1.

Frederick C. Joerg of Duke University has been awarded the fellowship for this coming summer by the Joint Committee on Education of the American Investment Business.

Frank J. Kottke, associate professor of economics of the School of Business Administration at the University of North Carolina, has been granted a year's leave of absence to take a full-time assignment with the Bureau of Industrial Economics of the Federal Trade Commission.

Donald J. May, instructor in economics at the School of Business Administration, Emory University, has returned from a leave of absence to do graduate work at the University of Chicago.

A. C. Michaelis has resigned his position as associate professor of management at Tulane University.

Frederick S. Morton, Jr., formerly a member of the staff at the Harvard Graduate School of Business, has been appointed associate professor of economics and business at Davidson College to begin work in September 1951.

James Payne, formerly at the University of Illinois, has been appointed assistant professor of economics at Louisiana State University.

Armand L. Perrault, Jr., has been appointed an instructor in accounting and economics at Tulane University, effective the spring semester of 1951.

W. T. Powell, instructor in economics at Delta State Teachers College, Cleveland, Mississippi, is on leave of absence for military duty.

Charles E. Ratliff, Jr., will return to Davidson College in September 1951 as assistant professor of economics following two years of graduate study at Duke University.

Raymond W. Ritland has resigned his position as instructor in economics at Tulane University in order to pursue further graduate work at the University of Iowa.

Marshall A. Robinson has been appointed assistant professor of economics at Tulane University.

William I. Scott has been appointed graduate assistant in economics at the University of Mississippi.

John H. Shields of Duke University is a member of the Committee on Cooperation with the Controllers Institute, American Accounting Association.

Mrs. Wilson Snipes has been appointed instructor in economics at Delta State Teachers College, Cleveland, Mississippi, for 1951–52.

Joseph J. Spengler of Duke University has recently been awarded the John F. Lewis prize for 1951 given by the American Philosophical Society for his paper, "Economic Factors in the Development of Densely Populated Areas."

Billy W. Stephens has been appointed graduate assistant in economics at the University of Mississippi.

Wendell R. Trumbull has resumed his duties as professor of accounting at the University of Mississippi after a semester's leave of absence to study at the University of Michigan.

W. Tate Whitman has been promoted to professor of economics at the School of Business Administration, Emory University.

John B. Woosley, chairman of Graduate Study and Research and of the Department of Economics and Business Administration at the University of North Carolina, has been appointed Kenan professor of finance.

The following names have been added to the membership of the Southern Economic Association:

William H. Anderson, Route 3, Box 50, Holly Hill, Fla.

James H. Edmundson, Box 2153, Peabody College, Nashville 4, Tenn.

James M. Edwards, 237 N. Page Court, DeLand, Fla.

George W. Jennings, Box 6, Department of Economics, University of Richmond, Va.

John C. Mettler, 74 Florence Street, Worcester 3, Mass.

James E. Parks, School of Commerce and Business Administration, University of Mississippi, University, Miss.

Peter B. Perrault, Box 367, Stetson University, DeLand, Fla.

J. Eugene Pierce, Building "D", University of Florida, Gainesville, Fla.

Robert C. Poole, 633 N. Hayden Avenue, DeLand, Fla.

John C. Rawls, Prairie View A. & M. College, Prairie View, Tex.

Jan Wieckowski, Box 400, Stetson University, DeLand, Fla.

NOTE

President James E. Ward has appointed the nominating committee for the 1952 officers of the Southern Economic Association. The committee consists of Dr. Joseph J. Spengler of Duke University (Chairman), Dean James E. Gates of the University of Georgia, and Dr. E. Q. Hawk of Birmingham-Southern College. All members of the Association who wish to suggest names to this committee should do so by July 1.

The 21st annual conference of the Southern Economic Association will be held at the Andrew Johnson Hotel in Knoxville, Tennessee, on November 16 and 17. Dean T. W. Glocker of the University of Tennessee is in charge of local arrangements.

JOHN B. MCFERRIN, *Secretary-Treasurer*
Southern Economic Association

BOOKS RECEIVED

Basic Economics: A Book of Readings. Edited by Arthur D. Gayer and others. New York: Prentice-Hall, 1951. Pp. xv, 624. Paper, $2.95.

International Economics. By Stephen Enke and Virgil Salera. 2nd ed. New York: Prentice-Hall, 1951. Pp. ix, 724. $5.00.

Direct Placement of Corporate Securities. By E. Raymond Corey. Boston: Division of Research, Graduate School of Business Administration, Harvard University, 1951. Pp. x, 233. $3.50.

La Monnaie. By Robert Mossé with an Introduction by Howard S. Ellis. Paris: Librairie Marcel Rivière et Cie, 1950. Pp. 205. 450 fr.

Salesmanship: Helping Prospects Buy. By Charles Atkinson Kirkpatrick, Cincinnati: South-Western Publishing Co., 1951. Pp. xii, 483. $4.25.

World Trade and Investment: The Economics of Interdependence. By Donald Bailey Marsh with a Foreword by Howard S. Ellis. New York: Harcourt, Brace and Co., 1951. Pp. xxii, 594. $5.50.

Principles of Economics. By Carl Menger. Translated and edited by James Dingwall and Bert F. Hoselitz with an Introduction by Frank H. Knight. Glencoe, Ill.: Free Press, 1950. Pp. 328. $5.00.

Pressures on Wage Decisions: A Case Study in the Shoe Industry. By George P. Shultz. New York: Technology Press of The Massachusetts Institute of Technology and John Wiley & Sons, 1951. Pp. vii, 142. $3.00.

Social Choice and Individual Values. By Kenneth J. Arrow. New York: John Wiley & Sons, 1951. Pp. xi, 99. $2.50.

Economics of Labor Relations. By Frederic Meyers. Chicago: Richard D. Irwin, 1951. Pp. xii, 435. $5.00.

Functional Accounting. By C. A. Moyer and R. K. Mautz. 2nd ed. New York: John Wiley & Sons, 1951. Pp. xii, 523. $6.00.

Personal Income Tax Reduction in a Business Contraction. By Melvin I. White. New York: Columbia University Press, 1951. Pp. 144. $2.50.

Transportation: Principles, Practices, Problems. By Charles E. Landon. New York: William Sloane Associates, 1951. Pp. xxii, 618. $4.75.

The Navy and the Industrial Mobilization in World War II. By Robert H. Connery. Princeton, N. J.: Princeton University Press, 1951. Pp. xi, 527. $6.00.

The Structure of Labor Markets: Wages and Labor Mobility in Theory and Practice. By Lloyd G. Reynolds. New York: Harper & Bros., 1951. Pp. ix, 328. $4.50.

Economic Systems: A Comparative Analysis. By George N. Halm. New York: Rinehart & Co., 1951. Pp. x, 438. $4.50.

Industrial Pricing and Market Practices. By Alfred R. Oxenfeldt. New York: Prentice-Hall, 1951. Pp. xii. 602. $4.75.

World Resources and Industries: A Functional Appraisal of the Availability of Agricultural and Industrial Materials. By Erich W. Zimmermann. Rev. ed. New York: Harper & Bros., 1951. Pp. xvi, 832. $7.50.

British Coal Nationalized. By Gerhard W. Ditz. New Haven, Conn.: Edward W. Hazen Foundation, 1951. Pp. 92. Paper, $1.00.

Cumulative Voting for Directors. By Charles M. Williams. Boston: Division of Research, Graduate School of Business Administration, Harvard University, 1951. Pp. ix, 194. $3.00.

Psychological Factors of Peace and War. Edited by T. H. Pear and others. New York: The Philosophical Library, 1950. Pp. ix, 262. $4.75.

Economic Resources and Policies of the South. By Calvin B. Hoover and B. U. Ratchford. New York: Macmillan Co., 1951. Pp. xxvii, 464. $5.50.

Contemporary Economic Systems. By Earl R. Sikes. Rev. ed. New York: Henry Holt & Co., 1951. Pp. xii, 756. $4.75.

The Structure of American Economy, 1919–1939: An Empirical Application of Equilibrium Analysis. By Wassily W. Leontief. 2nd ed. New York: Oxford University Press, 1951. Pp. xvi, 264. $5.75.

The Transportation Industries, 1889–1946: A Study of Output, Employment, and Productivity. By Harold Barger. New York: National Bureau of Economic Research, 1951. Pp. xvi, 288. $4.00.

Accounting: A Management Approach. By Ronald H. Robnett and others. Chicago: Richard D. Irwin, 1951. Pp. xiv, 570. $5.50.

State Court Injunctions. Report of the Subcommittee on Labor-Management Relations of the Committee on Labor and Welfare, United States Senate. Washington: Government Printing Office, 1951. Pp. 118.

The Role of Measurement in Economics. By Richard Stone. New York: Cambridge University Press, 1951. Pp. 85. $2.50.

Toward Worker Security: The Role of Management. Washington: Chamber of Commerce of the United States, 1951. Pp. 19. Paper, 25¢.

National Income Behavior: An Introduction to Algebraic Analysis. By Thomas C. Schelling. New York: McGraw-Hill Book Co., 1951. Pp. x, 291. $4.50.

Fifteenth Annual Report of the National Labor Relations Board for the Fiscal Year Ended June 30, 1950. Washington: Government Printing Office, 1951. Pp. xi, 257. Paper, 60¢.

Managerial Economics. By Joel Dean. New York: Prentice-Hall, 1951. Pp. xiv, 621. $6.65.

The Development of American Industries: Their Economic Significance. Planned and edited by John George Glover and William Bouck Cornell with a Foreword by G. Rowland Collins. 3rd ed. New York: Prentice-Hall, 1951. Pp. xxvii, 1,121. $8.00.

Report of the New York State Advisory Council on Placement and Unemployment Insurance for the Year 1950. New York: State Advisory Council on Placement and Unemployment Insurance, 1951. Pp. 27, 8, 3.

Collective Bargaining. By Neil W. Chamberlain. New York: McGraw-Hill Book Co., 1951. Pp. vii, 534. $6.00.

Marketing Research: How to Analyze Products, Markets, and Methods of Distribution. By Ernest S. Bradford. New York: McGraw-Hill Book Co., 1951. Pp. xii, 379. $5.00.

Effects of Taxation: Corporate Mergers. By Keith Butters and others. Boston: Division of Research, Graduate School of Business Administration, Harvard University, 1951. Pp. xviii, 364. $4.25.

The Theory of Investment of the Firm. By Friedrich and Vera Lutz. Princeton, N. J.: Princeton University Press, 1951. Pp. x, 253. $4.00.

Great Issues: The Making of Current American Policy. Edited by Stuart Gerry Brown. New York: Harper & Bros., 1951. Pp. viii, 578. $3.00.

Inflation in the United States, 1940–1948. By Lester V. Chandler. New York: Harper & Bros., 1951. Pp. ii, 402. $4.50.

The Soviet State and Its Inception. By Harry Best. New York: Philosophical Library, 1950. Pp. vii, 448. $6.00.

The Corporation Income Tax. By Richard Goode. New York: John Wiley & Sons, 1951. Pp. xiii, 242. $3.00.

Rates of Return—Class 1 Line-Haul Railways of the United States 1921–1948. By Sidney L. Miller and Others. Pittsburgh, Pa.: University of Pittsburgh Press, 1950. Pp. xiv, 211. $1.50.

Workmen's-Compensation in New Mexico: A Comparative Analysis. By Robert W. Thomas. Albuquerque, N. M.: Department of Economics, University of New Mexico, 1950. Pp. v, 179. Paper, $2.00.

Maintaining A High Level of Employment in A Democratic World. New York: United States Council of the International Chamber of Commerce, 1951. Pp. 16. Paper, 25¢.

Florida's State Governmental Structure: Report of the Special Joint Economy and Efficiency Committee of the Florida Legislature of 1943, Part I. Gainesville, Fla.: Public Administration Clearing Service of the University of Florida, 1950. Pp. xi, 62.

Defense Without Inflation. By Albert G. Hart. New York: Twentieth Century Fund, 1951. Pp. xiv, 186. $2.00.

Twentieth Century Economic History of Europe. By Paul Alpert. New York: Henry Schuman, 1951. Pp. xiv, 466. $6.00.

Economics of Investment. By Jacob O. Kamm. New York: American Book Co., 1951. Pp. xii, 547. $4.50.

Basic Economics. By Broadus Mitchell and Others. New York: William Sloane Associates, 1951. Pp. vi, 502. $3.75.

The Growth of the American Economy. Edited by Harold F. Williamson. 2nd ed. New York: Prentice-Hall, 1951. Pp. xiv, 946. $5.75.

Bank Reserves: Some Major Factors Affecting Them. New York: Federal Reserve Bank, 1951. Pp. 28.

The Foreign Policy of the United States. By Felix Morley. New York: American Enterprise Association, 1951. Pp. 80. Paper, 50¢.

Understanding Economics. By William C. Bagley, Jr., and Richard M. Perdew. New York: Macmillan Co., 1951. Pp. viii, 535. $3.28.

The Economics of the Money Supply: Bank Reserves, Credit, and the Forces of Inflation and Deflation. Washington: Chamber of Commerce of the United States, 1951. Pp. 39. Paper, 50¢.

Economic Policies for National Defense. Washington: Chamber of Commerce of the United States, 1951. Pp. 36. Paper, 50¢.

United Nations Publications, 1949. Lake Success, N. Y.: Information Department, United Nations, 1950. Pp. vii, 48.

Proceedings of the Third Annual Meeting. Chicago: Industrial Relations Research Association, 1950. Pp. ix, 388.

Ten Great Economists: From Marx to Keynes. By Joseph A. Schumpeter. New York: Oxford University Press, 1951. Pp. xiv, 305. $4.75.

Income and Employment Analysis. By Sidney Weintraub. New York: Pitman Publishing Corp., 1951. Pp. xi, 239. $2.00.

Russia's Soviet Economy. By Harry Schwartz. New York: Prentice-Hall, 1950. Pp. xxvi, 592. $6.65.

The House of Labor: Internal Operations of American Unions. Edited by J. B. S. Hardman and Maurice F. Neufeld. New York: Prentice-Hall, 1951. Pp. xviii, 555. $5.75.

Economics: An Introductory Analysis. By Paul A. Samuelson. 2nd ed. New York: McGraw-Hill Book Co., 1951. Pp. xxii, 762. $5.00.

The Return from Babel. By Gerald M. Spring. New York: Philosophical Library, 1951. Pp. xxvi, 188. $3.50.

Production Control. By Franklin G. Moore. New York: McGraw-Hill Book Co., 1951. Pp. xi, 455. $5.50.

Five Lectures on Social Security. By Edwin E. Witte. Rio Piedras: Labor Relations Institute, College of Social Sciences, University of Puerto Rico, 1951. Pp. 74.

Supply of Basic and Building Materials in Canada—Outlook 1951. Ottawa: Department of Trade and Commerce, 1951. Pp. 20.

Private and Public Investment in Canada—Outlook 1951. Ottawa: Department of Trade and Commerce, 1951. Pp. 40.

Twenty Years of Business Research, 1930–1950. University: Bureau of Business Research, School of Commerce and Business Administration, University of Alabama, 1951. Pp. 43.

Roads to Agreement: Successful Methods in the Science of Human Relations. By Stuart Chase in Collaboration with Marian Tyler Chase. New York: Harper & Bros., 1951. Pp. xiii, 250. $2.75.

The Prefabrication of Houses: A Study by the Albert Farwell Bemis Foundation of the Prefabrication Industry in the United States. By Burnham Kelly. New York: Technology Press of Massachusetts Institute of Technology and John Wiley and Sons, 1951. Pp. xxii, 466. $7.50.

Deterioration in the Quality of Foreign Bonds Issued in the United States, 1920–1930. By Ilse Mintz. New York: National Bureau of Economic Research, 1951. Pp. xi, 100. $2.00.

Economics of Employment. By Abba P. Lerner. New York: McGraw-Hill Book Co., 1951. Pp. xv, 397. $4.00.

Labor Cost in the Puerto Rican Economy. By Simon Rottenberg. Rio Piedras: Labor Relations Institute, College of Social Sciences, University of Puerto Rico, 1950. Pp. 66.

Money and Banking. By Raymond P. Kent. Rev. ed. New York: Rinehart & Co., 1951. Pp. xv, 763. $5.00.

Agricultural Market Prices. By Warren C. Waite and Harry C. Trelogan. 2nd ed. New York: John Wiley & Sons, 1951. Pp. ix, 440. $5.25.

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Applications for membership should be addressed to J. B. McFerrin, University of Florida, Gainesville, Florida.